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 June 30, 2021

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.)

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

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

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

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, 191,931,986 shares outstanding as of August 12, 2021.

NORTHSTAR HEALTHCARE INCOME, INC.

FORM 10-Q

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FORWARD-LOOKING STATEMENTS

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

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, 2020 and in Part II, Item 1A of this Quarterly Report on Form 10-Q under the heading "Risk Factors." The risk factors set forth in our filings with the SEC could cause our actual results to differ significantly from those contained in any forward-looking statement contained in this report.

PART I—Financial Information

Item 1. Financial Statements

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

	June 30, 2021 (Unaudited)	December 31, 2020
Assets		
Cash and cash equivalents	$ 108,713	$ 65,995
Restricted cash	21,637	27,575
Operating real estate, net	1,448,040	1,483,930
Investments in unconsolidated ventures	224,747	229,173
Real estate debt investment, net	20,053	55,864
Assets held for sale	—	5,000
Receivables, net	6,983	14,735
Goodwill and intangible assets, net	25,548	26,483
Other assets	14,408	9,681
Total assets[(1)]	$ 1,870,129	$ 1,918,436
Liabilities		
Mortgage and other notes payable, net	$ 1,391,309	$ 1,416,871
Line of credit - related party	35,000	35,000
Due to related party	3,694	8,318
Escrow deposits payable	4,192	3,851
Accounts payable and accrued expenses	32,745	38,393
Other liabilities	3,740	3,941
Total liabilities[(1)]	1,470,680	1,506,374
Commitments and contingencies (Note 13)		
Equity		
NorthStar Healthcare Income, Inc. Stockholders' Equity		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding as of June 30, 2021 and December 31, 2020	—	—
Common stock, $0.01 par value, 400,000,000 shares authorized, 191,694,688 and 190,409,341 shares issued and outstanding as of June 30, 2021 and December 31, 2020, respectively	1,916	1,904
Additional paid-in capital	1,715,130	1,710,023
Retained earnings (accumulated deficit)	(1,320,081)	(1,302,755)
Accumulated other comprehensive income (loss)	(115)	467
Total NorthStar Healthcare Income, Inc. stockholders' equity	396,850	409,639
Non-controlling interests	2,599	2,423
Total equity	399,449	412,062
Total liabilities and equity	$ 1,870,129	$ 1,918,436

(1) Represents the consolidated assets and liabilities of NorthStar Healthcare Income Operating Partnership, LP (the "Operating Partnership"). The Operating Partnership is a consolidated variable interest entity ("VIE"), of which the Company is the sole general partner and owns approximately 99.99%. As of June 30, 2021, the Operating Partnership includes $0.5 billion and $0.5 billion of assets and liabilities, respectively, of certain VIEs that are consolidated by the Operating Partnership. Refer to Note 2, "Summary of Significant Accounting Policies."

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Property and other revenues				
Resident fee income	$ 28,254	$ 30,698	$ 56,536	$ 63,545
Rental income	35,612	39,215	64,663	79,195
Other revenue	41	79	42	143
Total property and other revenues	63,907	69,992	121,241	142,883
Net interest income				
Interest income on debt investments	1,387	1,906	3,600	3,811
Expenses				
Real estate properties - operating expenses	45,101	46,012	90,719	91,713
Interest expense	15,962	16,453	31,987	33,132
Transaction costs	—	—	54	7
Asset management fees - related party	2,769	4,431	5,538	8,862
General and administrative expenses	3,079	2,288	6,112	5,317
Depreciation and amortization	15,557	16,495	30,944	32,984
Impairment loss	—	91,437	786	91,437
Total expenses	82,468	177,116	166,140	263,452
Other income (loss)				
Other income, net	(468)	—	6,892	—
Realized gain (loss) on investments and other	(111)	—	7,404	—
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax expense	(17,753)	(105,218)	(27,003)	(116,758)
Equity in earnings (losses) of unconsolidated ventures	10,766	(34,763)	9,876	(35,756)
Income tax expense	(11)	(14)	(26)	(28)
Net income (loss)	(6,998)	(139,995)	(17,153)	(152,542)
Net (income) loss attributable to non-controlling interests	135	714	(173)	780
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (6,863)	$ (139,281)	$ (17,326)	$ (151,762)
Net income (loss) per share of common stock, basic/diluted	$ (0.04)	$ (0.74)	$ (0.09)	$ (0.80)
Weighted average number of shares of common stock outstanding, basic/diluted [(1)]	191,273,318	189,336,336	190,953,795	189,187,410
Distributions declared per share of common stock	$ —	$ —	$ —	$ —

(1) The Company has issued 66,840 restricted stock units during the six months ended June 30, 2021. 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 and six months ended June 30, 2021.

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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net income (loss)	$ (6,998)	$ (139,995)	$ (17,153)	$ (152,542)
Other comprehensive income (loss)				
Foreign currency translation adjustments related to investment in unconsolidated venture	(108)	186	(582)	(858)
Total other comprehensive income (loss)	(108)	186	(582)	(858)
Comprehensive income (loss)	(7,106)	(139,809)	(17,735)	(153,400)
Comprehensive (income) loss attributable to non-controlling interests	135	714	(173)	780
Comprehensive income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (6,971)	$ (139,095)	$ (17,908)	$ (152,620)

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, 2019	189,111	$ 1,891	$ 1,702,260	$ (1,041,297)	$ (470)	$ 662,384	$ 5,120	$ 667,504
Share-based payment of advisor asset management fees	400	4	2,496	—	—	2,500	—	2,500
Amortization of equity-based compensation	—	—	38	—	—	38	—	38
Non-controlling interests - contributions	—	—	—	—	—	—	86	86
Non-controlling interests - distributions	—	—	—	—	—	—	(85)	(85)
Shares redeemed for cash	(320)	(3)	(1,995)	—	—	(1,998)	—	(1,998)
Other comprehensive income (loss)	—	—	—	—	(1,044)	(1,044)	—	(1,044)
Net income (loss)	—	—	—	(12,481)	—	(12,481)	(66)	(12,547)
Balance as of March 31, 2020 (Unaudited)	189,191	$ 1,892	$ 1,702,799	$ (1,053,778)	$ (1,514)	$ 649,399	$ 5,055	$ 654,454
Share-based payment of advisor asset management fees	400	4	2,496	—	—	2,500	—	2,500
Issuance and amortization of equity-based compensation	29	—	39	—	—	39	—	39
Non-controlling interests - contributions	—	—	—	—	—	—	7	7
Non-controlling interests - distributions	—	—	—	—	—	—	(54)	(54)
Other comprehensive income (loss)	—	—	—	—	186	186	—	186
Net income (loss)	—	—	—	(139,281)	—	(139,281)	(714)	(139,995)
Balance as of June 30, 2020 (Unaudited)	189,620	$ 1,896	$ 1,705,334	$ (1,193,059)	$ (1,328)	$ 512,843	$ 4,294	$ 517,137

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

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

	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Company's Stockholders' Equity	Non-controlling Interests	Total Equity
	Shares	Amount						
Balance as of December 31, 2020	190,409	$ 1,904	$ 1,710,023	$ (1,302,755)	$ 467	$ 409,639	$ 2,423	$ 412,062
Share-based payment of advisor asset management fees	643	6	2,494	—	—	2,500	—	2,500
Amortization of equity-based compensation	—	—	46	—	—	46	—	46
Non-controlling interests - contributions	—	—	—	—	—	—	240	240
Non-controlling interests - distributions	—	—	—	—	—	—	(350)	(350)
Other comprehensive income (loss)	—	—	—	—	(474)	(474)	—	(474)
Net income (loss)	—	—	—	(10,463)	—	(10,463)	308	(10,155)
Balance as of March 31, 2021 (Unaudited)	191,052	$ 1,910	$ 1,712,563	$ (1,313,218)	$ (7)	$ 401,248	$ 2,621	$ 403,869
Share-based payment of advisor asset management fees	643	6	2,494	—	—	2,500	—	2,500
Amortization of equity-based compensation	—	—	73	—	—	73	—	73
Non-controlling interests - contributions	—	—	—	—	—	—	146	146
Non-controlling interests - distributions	—	—	—	—	—	—	(33)	(33)
Other comprehensive income (loss)	—	—	—	—	(108)	(108)	—	(108)
Net income (loss)	—	—	—	(6,863)	—	(6,863)	(135)	(6,998)
Balance as of June 30, 2021 (Unaudited)	191,695	$ 1,916	$ 1,715,130	$ (1,320,081)	$ (115)	$ 396,850	$ 2,599	$ 399,449

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

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

	Six Months Ended June 30,	
	2021	**2020**
Cash flows from operating activities:		
Net income (loss)	$ (17,153)	$ (152,542)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Equity in (earnings) losses of unconsolidated ventures	(9,876)	35,756
Depreciation and amortization	30,944	32,984
Impairment loss	786	91,437
Capitalized interest for mortgage and other notes payable	—	222
Amortization of below market debt	1,575	1,536
Straight-line rental (income) loss, net	7,085	70
Amortization of discount/accretion of premium on investments	(243)	(61)
Amortization of deferred financing costs	932	941
Amortization of equity-based compensation	119	77
Paid-in-kind interest on real estate debt investment	(194)	—
Realized (gain) loss on investments and other	(7,404)	—
Change in allowance for uncollectible accounts	(845)	1,004
Issuance of common stock as payment for asset management fees	5,000	5,000
Changes in assets and liabilities:		
Receivables	1,512	(1,282)
Other assets	(4,727)	(298)
Due to related party	(4,624)	(2,332)
Escrow deposits payable	341	371
Accounts payable and accrued expenses	(6,210)	4,516
Other liabilities	169	34
Net cash (used in) provided by operating activities	(2,813)	17,433
Cash flows from investing activities:		
Capital expenditures for operating real estate	(10,093)	(5,362)
Sale of operating real estate	28,078	—
Repayment of real estate debt investment	46,631	—
Investment in unconsolidated ventures	(250)	—
Distributions from unconsolidated ventures	3,029	1,765
Real estate debt investment modification fee	559	—
Other assets	—	(290)
Net cash provided by (used in) investing activities	67,954	(3,887)
Cash flows from financing activities:		
Borrowings from mortgage notes	26,000	—
Repayment of mortgage notes	(53,361)	(8,112)
Borrowings from line of credit - related party	—	35,000
Payment of deferred financing costs	(708)	—
Payments under finance leases	(295)	(307)
Shares redeemed for cash	—	(1,998)
Contributions from non-controlling interests	386	93
Distributions to non-controlling interests	(383)	(139)
Net cash (used in) provided by financing activities	(28,361)	24,537
Net increase (decrease) in cash, cash equivalents and restricted cash	36,780	38,083
Cash, cash equivalents and restricted cash-beginning of period	93,570	58,820
Cash, cash equivalents and restricted cash-end of period	$ 130,350	$ 96,903

	Six Months Ended June 30,	
	2021	**2020**
Supplemental disclosure of non-cash investing and financing activities:		
Accrued capital expenditures	$ 561	$ 500
Assets acquired under finance leases	—	112

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

1. Business and Organization

NorthStar Healthcare Income, Inc., together with its consolidated subsidiaries (the "Company"), manages a diversified portfolio of investments in healthcare real estate, owned directly or through joint ventures, with a focus on the mid-acuity seniors housing sector, which the Company defines as assisted living ("ALF"), memory care ("MCF"), skilled nursing ("SNF"), independent living ("ILF") facilities and continuing care retirement communities ("CCRC"), which have independent living, assisted living, skilled nursing and memory care available on one campus. Primarily through joint ventures, the Company is also invested in other healthcare property types, including medical office buildings ("MOB"), hospitals, rehabilitation facilities and ancillary healthcare services businesses. The Company's investments are predominantly in the United States, but through its joint ventures also has international investments in the United Kingdom.

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

Substantially all of the Company's business is conducted through NorthStar Healthcare Income Operating Partnership, LP (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. The limited partners of the Operating Partnership are NorthStar Healthcare Income Advisor, LLC (the "Prior Advisor") and NorthStar Healthcare Income OP Holdings, LLC (the "Special Unit Holder"), each an affiliate of the Company's sponsor. The Prior Advisor invested $1,000 in the Operating Partnership in exchange for common units and the Special Unit Holder invested $1,000 in the Operating Partnership and was issued a separate class of limited partnership units (the "Special Units"), which are collectively recorded as non-controlling interests on the accompanying consolidated balance sheets as of June 30, 2021 and December 31, 2020. As the Company issued shares, it contributed substantially all of the proceeds from its continuous, public offerings to the Operating Partnership as a capital contribution. As of June 30, 2021, the Company's limited partnership interest in the Operating Partnership was 99.99%.

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

The Company is externally managed and has no employees. The Company is sponsored by DigitalBridge Group, Inc. (formerly Colony Capital, Inc.) (NYSE: DBRG) ("DigitalBridge" or the "Sponsor"), a global REIT, that owns, operates and invests across the full spectrum of digital infrastructure and real estate including cell towers, data centers, fiber, small cells and edge infrastructure. Effective June 21, 2021, the Sponsor changed its name from Colony Capital, Inc. to DigitalBridge Group, Inc., and its ticker symbol from "CLNY" to "DBRG."

DigitalBridge manages capital on behalf of its stockholders, as well as institutional and retail investors. The Company's advisor, CNI NSHC Advisors, LLC (the "Advisor"), is a subsidiary of DigitalBridge and manages its day-to-day operations pursuant to an advisory agreement.

From inception through June 30, 2021, the Company raised total gross proceeds from the sale of shares of common stock totaling $2.0 billion (the "Offering"), including $232.6 million pursuant to its distribution reinvestment plan (the "DRP").

Impact of COVID-19

The world continues to experience the broad effects of the coronavirus 2019 ("COVID-19") pandemic, with efforts to address the pandemic impacting economic and financial markets globally and across all facets of industries, including real estate. The Company's healthcare real estate business and investments have experienced a myriad of challenges, including, but not limited to, declines in resident occupancy and operating cash flows, increases in cost burden faced by operators, lease concessions sought by tenants, and a stressed market affecting real estate values in general.

The recovery from the impact of the COVID-19 pandemic on the Company's operational and financial performance will depend on a variety of factors, which may differ considerably across regions and fluctuate over time. Recent guidance from state and local governments, including the easing of restrictions, the resumption of normal business operations in many municipalities, and lower reported infection rates are encouraging signs towards a recovery from the effects of the pandemic. Significant vaccine deployment and acceptance has begun to mitigate the number of confirmed COVID-19 cases, which in turn has helped to reduce preventative operating costs that continue to be incurred. However, new strains and variants of the virus have caused a resurgence and an increase in reported infection rates, which may impact the general economic recovery. Occupancy challenges are still anticipated until such time that the rate of resident move-outs is outpaced by new resident admissions, for which the future trend remains uncertain.

The Company anticipates a recovery of its healthcare real estate business will span over future periods. An extended recovery period increases the risk of a prolonged negative impact on the Company's financial condition and results of operations. While the Company has the ability to meet its near term liquidity needs, general market concerns over credit and liquidity continue and the effects of COVID-19 may also lead to heightened risk of litigation, with an ensuing increase in litigation and related costs.

At this time, the progression of the global economic recovery from the broad effects of COVID-19 remains difficult for the Company to assess and estimate the future impact of COVID-19 on the Company's results of operations. Accordingly, any estimates of the effects of COVID-19 as reflected 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, and such estimates may change, the effects of which could be material. The Company will continue to monitor the progression of the economic recovery from COVID-19 and reassess its effects on the Company's results of operations and recoverability of value across its assets as conditions change.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying unaudited consolidated financial statements and related notes of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and note disclosures normally included in the consolidated financial statements prepared under U.S. GAAP have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020, which was filed with the U.S. Securities and Exchange Commission on March 23, 2021.

Reclassifications

Certain prior period amounts have been reclassified on the consolidated statements of cash flows from the supplemental disclosure of non-cash investing and financing activities to adjustments to reconcile net income (loss) to net cash provided by operating activities to conform to current period presentation.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, the Operating Partnership and their consolidated subsidiaries. The Company consolidates entities in which it has a controlling financial interest by first considering if an entity meets the definition of a variable interest entity ("VIE") for which the Company is deemed to be the primary beneficiary or if the Company has the power to control an entity through majority voting interest or other arrangements. All significant intercompany balances are eliminated in consolidation.

Variable Interest Entities

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

A VIE must be consolidated only by its primary beneficiary, which is defined as the party who, along with its affiliates and agents, has both the: (i) power to direct the activities that most significantly impact the VIE's economic performance; and (ii) obligation to absorb the losses of the VIE or the right to receive the benefits from the VIE, which could be significant to the VIE. The Company determines whether it is the primary beneficiary of a VIE by considering qualitative and quantitative factors, including, but not limited to: which activities most significantly impact the VIE's economic performance and which party controls such activities; the amount and characteristics of its investment; the obligation or likelihood for the Company or other interests to provide financial support; consideration of the VIE's purpose and design, including the risks the VIE was designed to create and pass through to its variable interest holders and the similarity with and significance to the business activities of the Company and the other interests. The Company reassesses its determination of whether it is the primary beneficiary of a VIE each reporting period. Judgments related to these determinations include estimates about the current and future fair value and performance of investments held by these VIEs and general market conditions. During the six months ended June 30, 2021, the Company determined that a reconsideration event for an unconsolidated VIE did not result in a change in the evaluation that the Company is not the primary beneficiary.

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

As of June 30, 2021, the Company has identified certain consolidated and unconsolidated VIEs. Assets of each of the VIEs, other than the Operating Partnership, may only be used to settle obligations of the respective VIE. Creditors of each of the VIEs have no recourse to the general credit of the Company.

Consolidated VIEs

The most significant consolidated VIEs are the Operating Partnership and certain properties that have non-controlling interests. These entities are VIEs because the non-controlling interests do not have substantive kick-out or participating rights. The Operating Partnership consolidates certain properties that have non-controlling interests. Included in operating real estate, net on the Company's consolidated balance sheets as of June 30, 2021 is $476.1 million related to such consolidated VIEs. Included in mortgage and other notes payable, net on the Company's consolidated balance sheet as of June 30, 2021 is $442.1 million, collateralized by the real estate assets of the related consolidated VIEs.

Unconsolidated VIEs

As of June 30, 2021, the Company identified unconsolidated VIEs related to its real estate equity investments with a carrying value of $224.7 million. The Company's maximum exposure to loss as of June 30, 2021 would not exceed the carrying value of its investment in the VIEs and its investment in a mezzanine loan to a subsidiary of one of the VIEs. Based on management's analysis, the Company determined that it is not the primary beneficiary of these VIEs and, accordingly, they are not consolidated in the Company's financial statements as of June 30, 2021. During the six months ended June 30, 2021, the Company contributed $0.3 million to an unconsolidated VIE. As of June 30, 2021, there were no explicit arrangements or implicit variable interests that could require the Company to provide financial support to its unconsolidated VIEs.

Voting Interest Entities

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

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

Investments in Unconsolidated Ventures

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

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

Non-controlling Interests

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

Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that could affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates and assumptions. Any estimates of the effects of COVID-19 as reflected and/or discussed in these financial statements are based upon the Company's best estimates using information known to the Company as of the date of this 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. 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 tenants 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):

	June 30, 2021 (Unaudited)	December 31, 2020
Cash and cash equivalents	$ 108,713	$ 65,995
Restricted cash	21,637	27,575
Total cash, cash equivalents and restricted cash	$ 130,350	$ 93,570

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 totaling $3.4 million, which is included in furniture, fixtures, and equipment within operating real estate, net on the Company's consolidated balance sheets. The leased equipment is amortized on a straight-line basis. For the six months ended June 30, 2021 and 2020, payments for finance leases totaled $0.3 million, 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):

July 1 to December 31, 2021	$	322
Years Ending December 31:		
2022		560
2023		138
2024		42
2025		—
Thereafter		—
Total minimum lease payments	$	1,062
Less: Amount representing interest	$	(58)
Present value of minimum lease payments	$	1,004

The weighted average interest rate related to the finance lease obligations is 6.1% with a weighted average lease term of 1.8 years.

As of June 30, 2021, there were no leases that had yet to commence which would create significant rights and obligations to the Company as lessee.

Assets Held For Sale

The Company classifies certain long-lived assets as held for sale once the criteria, as defined by U.S. GAAP, have been met and are expected to sell within one year. Long-lived assets to be disposed of are reported at the lower of their carrying amount or fair value minus cost to sell, with any write-down recorded to impairment loss on the consolidated statements of operations. Depreciation and amortization is not recorded for assets classified as held for sale. As of June 30, 2021, the Company did not have any assets classified as held for sale. As of December 31, 2020, the Company classified two operating real estate properties within the Kansas City portfolio as held for sale, which were sold in June 2021.

Real Estate Debt Investments

Real estate debt investments are generally intended to be held to maturity and, accordingly, are carried at cost, net of unamortized loan fees, premium, discount and unfunded commitments. Debt investments where the Company does not have the intent to hold the loan for the foreseeable future or until its expected payoff are classified as held for sale and recorded at the lower of cost or estimated fair value. Refer to "—Credit Losses on Real Estate Debt Investments and Receivables" for additional information on estimated credit loses for real estate debt investments.

Goodwill, Intangible Assets and Deferred Costs

Deferred Costs

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

Identified Intangibles

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

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

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

Identified intangible assets are recorded in deferred costs and intangible assets, net on the consolidated balance sheets. The following table presents deferred costs and intangible assets, net (dollars in thousands):

	June 30, 2021 (Unaudited)	December 31, 2020
Goodwill and intangible assets, net:		
In-place lease value, net	$ 3,735	$ 4,635
Goodwill	21,387	21,387
Certificate of need intangible assets	380	380
Subtotal intangible assets	25,502	26,402
Deferred costs, net	46	81
Total	$ 25,548	$ 26,483

The Company recorded $0.5 million and $0.9 million of amortization expense for in-place leases and deferred costs for the three and six months ended June 30, 2021 and 2020, respectively.

In-place lease value, net includes a gross asset amount of $130.0 million for in-place leases related to the Company's direct investment - net lease properties, of which $126.3 million has been amortized as of June 30, 2021. All other in-place leases related to the Company's direct investment - operating properties have been fully amortized as of June 30, 2021.

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

July 1 to December 31, 2021	$ 937
Years Ending December 31:	
2022	592
2023	337
2024	337
2025	337
Thereafter	1,241
Total	$ 3,781

Other Assets

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

	June 30, 2021 (Unaudited)	December 31, 2020
Other assets:		
Healthcare facility regulatory reserve deposit[(1)]	$ 6,000	$ —
Remainder interest in condominium units[(2)]	2,327	2,327
Prepaid expenses	2,611	3,798
Lease / rent inducements, net	2,663	2,246
Utility deposits	450	447
Other	357	863
Total	$ 14,408	$ 9,681

(1) Represents the Company's contribution to a required regulatory reserve that is held by a net lease operator.
(2) Represents future interests in property subject to life estates.

Revenue Recognition

Operating Real Estate

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

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

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

A summary of rental income recognized for the six months ended June 30, 2021 for the Company's direct net lease properties is as follows:

- The operator of the Smyrna property failed to remit rental payments and accordingly no lease income was recognized. The Smyrna property was sold in May 2021.
- The operator of the Arbors portfolio failed to remit contractual monthly rent obligations and the Company deemed it not probable that these obligations will be satisfied in the future. Beginning in February 2021, the Company recorded rental income to the extent rental payments were received. In addition, rental income was reduced by $7.4 million for the write-off of straight-line rent receivables, as full collection of rent under the lease was deemed not to be probable.
- Despite the adverse effects of COVID-19 on its operations, the operator of the Fountains net lease portfolio has remitted full contractual rent. Effective April 15, 2021, the Company executed a lease modification, that allows the operator of the Fountains net lease portfolio to defer up to $3.0 million of contractual rent payments over the remaining term of the lease, which will be forgiven at the expiration or earlier termination of the lease, subject to the satisfaction and compliance with certain terms and conditions. The Company has recognized rental revenue on a straight-line basis based on the modified terms of the lease, with the assumption that the deferred contractual rent payments will be forgiven.

For the three months ended June 30, 2021 and 2020, total property and other revenues includes variable lease revenue of $3.4 million and $4.0 million, respectively. For the six months ended June 30, 2021 and 2020, total property and other revenue includes variable lease revenue of $6.7 million and $8.2 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. In addition, the Company recognized grant income received from the Provider Relief Fund administered by the U.S Department of Health & Human Services ("DHHS") totaling $7.4 million for the six months ended June 30, 2021. All grant income was received and recognized during the three months ended March 31, 2021. The grant income is classified as other income, net in the consolidated statements of operations. These grants are intended to mitigate the negative financial impact of the COVID-19 pandemic as reimbursements for expenses incurred to prevent, prepare for and respond to COVID-19 and lost revenues attributable to COVID-19. Provided that we attest to and comply with certain terms and conditions of the grants, we will not be required to repay these grants in the future.

Lease Concessions Related to COVID-19

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

Effective June 1, 2020, the Company granted a lease concession to the operator of its Fountains net lease portfolio. The concession allowed the operator to defer a portion of contractual rent payments for a 90-day period, with full contractual rent to be repaid over the 12 months following the concession period. The lease concession provided the operator relief consistent with the debt forbearance received from the lender of the properties in the portfolio. The lease concession period ended on August 31, 2020 and the operator has resumed remitting contractual rent payments, including amounts related to deferred rent granted under the lease concession. Deferred rental payments outstanding as of June 30, 2021 totaled $0.5 million for the Fountains net lease portfolio. As there were no substantive changes to the original lease or changes in total cash flows, the concession was not treated as a lease modification and the Company continues to recognize lease income and receivables under the original terms of the lease.

Real Estate Debt Investments

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

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

<u>Impairment on Operating Real Estate and Investments in Unconsolidated Ventures</u>

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

Operating Real Estate

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

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

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

During the six months ended June 30, 2021, the Company recorded impairment losses totaling $0.8 million on its Smyrna net lease property as a result of lower estimated future cash flows and market value. The property was sold in May 2021. During the six months ended June 30, 2020, the Company recorded impairment losses totaling $91.4 million on its operating real estate and held for sale investments.

Investments in Unconsolidated Ventures

The Company reviews its investments in unconsolidated ventures for which the Company did not elect the fair value option on a quarterly basis, or more frequently as necessary, to assess whether there are any indicators that the value may be impaired or that its carrying value may not be recoverable. An investment is considered impaired if the projected net recoverable amount over the expected holding period is less than the carrying value. In conducting this review, the Company considers global macroeconomic factors, including real estate sector conditions, together with investment specific and other factors. To the extent an impairment has occurred and is considered to be other than temporary, the loss is measured as the excess of the carrying value of the investment over the estimated fair value and recorded in equity in earnings (losses) of unconsolidated ventures in the consolidated statements of operations.

During the six months ended June 30, 2021, 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 six months ended June 30, 2020, 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 totaled $37.4 million.

Credit Losses on Real Estate Debt Investments and Receivables

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

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

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

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

As of June 30, 2021, the Company has not recorded an allowance for credit losses on its Financial Assets. Refer to Note 5, "Real Estate Debt Investments" for additional information regarding the carrying value of the Company's real estate debt investment.

Acquisition Fees and Expenses

The total of all acquisition fees and expenses for an investment, including acquisition fees to the Advisor, cannot exceed, in the aggregate, 6.0% of the contract purchase price of such investment unless such excess is approved by a majority of the Company's directors, including a majority of its independent directors. Effective January 1, 2018, the Advisor no longer receives an acquisition fee in connection with the Company's acquisitions of real estate properties or debt investments. For the six months ended June 30, 2021, the Company did not incur any acquisition fees or expenses to the Advisor or third parties. The Company records as an expense for certain acquisition costs and fees associated with transactions deemed to be business combinations in which it consolidates the asset and capitalizes these costs for transactions deemed to be acquisitions of an asset, including an equity investment.

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 2017 to 2020, and concluded there were no material uncertainties to be recognized.

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

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

Certain subsidiaries of the Company are subject to taxation by federal, state and foreign authorities for the periods presented. Income taxes are accounted for by the asset/liability approach in accordance with U.S. GAAP. Deferred taxes, if any, represent the expected future tax consequences when the reported amounts of assets and liabilities are recovered or paid. Such amounts arise from differences between the financial reporting and tax bases of assets and liabilities and are adjusted for changes in tax laws and tax rates in the period which such changes are enacted. A provision for income tax represents the total of income taxes paid or payable for the current period, plus the change in deferred taxes. Current and deferred taxes are provided on the portion of earnings (losses) recognized by the Company with respect to its interest in the TRS. Deferred income tax assets and liabilities are calculated based on temporary differences between the Company's U.S. GAAP consolidated financial statements and the federal and state income tax basis of assets and liabilities as of the consolidated balance sheets date. The Company evaluates the realizability of its deferred tax assets (e.g., net operating loss and capital loss carryforwards) and recognizes a valuation allowance if, based on the available evidence, it is more likely than not that some portion or all of its deferred tax assets will not be realized. When evaluating the realizability of its deferred tax assets, the Company considers estimates of expected future taxable income, existing and projected book/tax differences, tax planning strategies available and the general and industry specific economic outlook. This realizability analysis is inherently subjective, as it requires the Company to forecast its business and general economic environment in future periods. Changes in estimate of deferred tax asset realizability, if any, are included in provision for income tax benefit (expense) in the consolidated statements of operations. The Company has a deferred tax asset, which as of June 30, 2021 totaled $22.2 million and continues to have a full valuation allowance recognized, as there are no changes in the facts and circumstances to indicate that the Company should release the valuation allowance.

The Company recorded an income tax expense of approximately $11,000 and $26,000 for the three and six months ended June 30, 2021, respectively. The Company recorded an income tax expense of approximately $14,000 and $28,000 for the three and six months ended June 30, 2020, respectively.

Comprehensive Income (Loss)

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

Foreign Currency

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

Assets and liabilities denominated in a foreign currency for which the functional currency is the U.S. dollar are remeasured using the currency exchange rate in effect at the end of the period presented and the results of operations for such entities are remeasured into U.S. dollars using the average currency exchange rate in effect during the period.

As of June 30, 2021 and December 31, 2020, the Company had exposure to foreign currency through an investment in an unconsolidated venture, the effects of which are reflected as a component of accumulated OCI in the consolidated statements of equity and in equity in earnings (losses) in the consolidated statements of operations.

Recent Accounting Pronouncements

Accounting Standards Adopted in 2021

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

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

Future Application of Accounting Standards

Reference Rate Reform—In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The guidance in Topic 848 is optional, the election of which provides temporary relief for the accounting effects on contracts, hedging relationships and other transactions impacted by the transition from interbank offered rates (such as London Interbank Offered Rate ("LIBOR")) that are expected to be discontinued by the end of 2021 to alternative reference rates (such as Secured Overnight Financing Rate). Modification of contractual terms to effect the reference rate reform transition on debt, leases, derivatives and other contracts is eligible for relief from modification accounting and accounted for as a continuation of the existing contract. Topic 848 is effective upon issuance through December 31, 2022, and may be applied retrospectively to January 1, 2020. The Company may elect practical expedients or exceptions as applicable over time as reference rate reform activities occur.

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.

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

3. Operating Real Estate

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

	June 30, 2021 (Unaudited)	December 31, 2020
Land	$ 229,581	$ 234,706
Land improvements	23,470	23,797
Buildings and improvements	1,377,045	1,389,706
Tenant improvements	17,173	16,172
Construction in progress	4,685	2,535
Furniture, fixtures and equipment	108,079	108,055
Subtotal	$ 1,760,033	$ 1,774,971
Less: Accumulated depreciation	(311,993)	(291,041)
Operating real estate, net	$ 1,448,040	$ 1,483,930

For the three and six months ended June 30, 2021, depreciation expense was $15.1 million and $30.0 million respectively. For the three and six months ended June 30, 2020, depreciation expense was $16.0 million and $32.0 million, respectively.

Within the table above, buildings and improvements have been reduced by accumulated impairment losses of $187.8 million and $213.9 million as of June 30, 2021 and December 31, 2020, respectively. Impairment loss, as presented on the consolidated statements of operations, totaled $0.8 million and $91.4 million for the six months ended June 30, 2021 and 2020, respectively. 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 tables present the Company's investments in unconsolidated ventures (dollars in thousands):

			Carrying Value[(1)]	
Portfolio	Acquisition Date	Ownership	June 30, 2021 (Unaudited)	December 31, 2020
Eclipse	May-2014	5.6 %	$ 9,557	$ 5,624
Envoy[(2)]	Sep-2014	11.4 %	4	2
Diversified US/UK	Dec-2014	14.3 %	84,723	89,651
Espresso[(3)]	Jul-2015	36.7 %	—	—
Trilogy	Dec-2015	23.2 %	130,294	133,896
Subtotal			$ 224,578	$ 229,173
Operator Platform[(4)]	Jul-2017	20.0 %	169	—
Total			$ 224,747	$ 229,173

(1) Includes $1.3 million, $13.4 million, $7.6 million and $9.8 million of capitalized acquisition costs for the Company's investments in the Eclipse, Diversified US/UK, Espresso and Trilogy joint ventures, respectively.
(2) In March 2019, the Envoy joint venture completed the sale of its remaining 11 properties for a sales price of $118.0 million, which generated net proceeds to the Company totaling $4.3 million. The Company's carrying value for its investment in the Envoy joint venture represents additional proceeds to be received upon satisfaction of certain conditions under the sale.

(3) As a result of impairments and other non-cash reserves recorded by the joint venture, the Company's carrying value of its Espresso unconsolidated investment was reduced to zero in the fourth quarter of 2018. The Company has recorded the excess equity in losses related to its unconsolidated venture as a reduction to the carrying value of its mezzanine loan, which was originated to a subsidiary of the Espresso joint venture.

(4) Represents investment in Solstice Senior Living, LLC ("Solstice"), the manager of the Winterfell portfolio. Solstice is a joint venture between affiliates of Integral Senior Living, LLC ("ISL"), a management company of ILF, ALF and MCF founded in 2000, which owns 80.0%, and the Company, which owns 20.0%. During the six months ended June 30, 2021, the Company contributed an additional $0.3 million to Solstice.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2021		2020		2021		2020	
Portfolio	Equity in Earnings (Losses)	Cash Distribution	Equity in Earnings (Losses)	Cash Distribution	Equity in Earnings (Losses)	Cash Distribution	Equity in Earnings (Losses)	Cash Distribution
Eclipse	$ 4,073	$ —	$ (3,293)	$ —	$ 3,933	$ —	$ (3,492)	$ 86
Envoy	740	739	—	—	740	739	—	192
Diversified US/UK	641	1,431	(35,999)	—	(2,057)	2,290	(38,090)	1,487
Espresso	5,686	—	(365)	—	10,943	—	(582)	—
Trilogy	(325)	—	4,928	—	(3,602)	—	6,456	—
Subtotal	$ 10,815	$ 2,170	$ (34,729)	$ —	$ 9,957	$ 3,029	$ (35,708)	$ 1,765
Operator Platform(1)	(49)	—	(34)	—	(81)	—	(48)	—
Total	$ 10,766	$ 2,170	$ (34,763)	$ —	$ 9,876	$ 3,029	$ (35,756)	$ 1,765

(1) Represents the Company's investment in Solstice.

Summarized Financial Data

The following table presents the combined balance sheets as of June 30, 2021 and December 31, 2020 and combined statements of operations for the three and six months ended June 30, 2021 and 2020 of the Eclipse, Espresso and Trilogy unconsolidated ventures (dollars in thousands):

	June 30, 2021 (Unaudited)	December 31, 2020
Assets		
Operating real estate, net	$ 2,148,692	$ 2,295,192
Other assets	825,954	867,882
Total assets	$ 2,974,646	$ 3,163,074
Liabilities and equity		
Total liabilities	$ 2,315,558	$ 2,587,486
Equity	659,088	575,588
Total liabilities and equity	$ 2,974,646	$ 3,163,074

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Total revenues	$ 305,281	$ 318,090	$ 598,911	$ 642,563
Net income (loss)	$ 86,379	$ (38,153)	$ 84,129	$ (35,683)

5. Real Estate Debt Investments

The following table presents the Company's one debt investment (dollars in thousands):

	Principal Amount		Carrying Value(1)			
Asset Type:	June 30, 2021 (Unaudited)	December 31, 2020	June 30, 2021 (Unaudited)	December 31, 2020	Effective Interest Rate(2)	Final Maturity Date
Mezzanine loan(1)	$ 27,745	$ 74,182	$ 20,053	$ 55,864	14.0 %	Jan 2022

(1) As a result of impairments and other non-cash reserves recorded by the joint venture, the Company's carrying value of its Espresso unconsolidated investment was reduced to zero in the fourth quarter of 2018. The Company has recorded the excess equity in losses related to its unconsolidated investment as a reduction to the carrying value of its mezzanine loan, which was originated to a subsidiary of the Espresso joint venture. As of June 30, 2021 and December 31, 2020, the cumulative excess equity in losses included in the mezzanine loan carrying value were $7.4 million and $18.3 million, respectively.

(2) Represents the effective interest rate as of June 30, 2021, which is a fixed rate of 14%.

During the six months ended June 30, 2021, the Company received principal repayments on its debt investment totaling $46.6 million. The borrower has funded these principal repayments through net proceeds generated from the sale of underlying collateral and available operating cash flow. For additional information, refer to Note 14, "Subsequent Events."

The Company evaluates its debt investment at least quarterly based on: (i) whether the borrower is currently paying contractual debt service in accordance with its contractual terms; and (ii) whether the Company believes the borrower will be able to perform under its contractual terms in the future, as well as the Company's expectations as to the ultimate recovery of principal. The Company considers historical credit loss information, current conditions, the effects of expectations of changes in future macroeconomic conditions as well as reasonable and supportable forecasts.

As of June 30, 2021, the Company's debt investment was performing in accordance with the contractual terms of its governing documents. The Company continues to assess the collectability of principal and interest and expects to receive full payment of contractual interest and recover the principal outstanding. As of June 30, 2021, contractual debt service has been paid in accordance with contractual terms.

For the six months ended June 30, 2021, the mezzanine loan represented 100% of the Company's interest income on debt investments as presented on the consolidated statements of operations.

6. Borrowings

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

				June 30, 2021 (Unaudited)		December 31, 2020	
	Recourse vs. Non-Recourse	Final Maturity	Contractual Interest Rate[(1)]	Principal Amount[(2)]	Carrying Value[(2)]	Principal Amount[(2)]	Carrying Value[(2)]
Mortgage notes payable, net							
Watermark Aqua Portfolio							
Denver, CO	Non-recourse	Repaid	LIBOR + 2.92%	$ —	$ —	$ 20,189	$ 20,183
Frisco, TX[(3)]	Non-recourse	Feb 2026	3.0%	26,000	25,368	18,770	18,764
Milford, OH	Non-recourse	Sep 2026	LIBOR + 2.68%	18,760	18,456	18,760	18,423
Rochester Portfolio							
Rochester, NY	Non-recourse	Feb 2025	4.25%	19,414	19,343	19,907	19,830
Rochester, NY[(4)]	Non-recourse	Aug 2027	LIBOR + 2.34%	101,224	100,436	101,224	100,378
Rochester, NY	Non-recourse	Aug 2022	LIBOR + 2.90%	11,795	11,731	12,800	12,584
Arbors Portfolio[(5)]							
Various locations	Non-recourse	Feb 2025	3.99%	86,309	85,635	87,302	86,521
Watermark Fountains Portfolio[(6)]							
Various locations	Non-recourse	Jun 2022	3.92%	382,216	381,573	386,607	385,606
Various locations	Non-recourse	Jun 2022	5.56%	72,819	72,653	73,439	73,180
Winterfell Portfolio[(7)]							
Various locations	Non-recourse	Jun 2025	4.17%	615,734	602,791	622,045	607,526
Avamere Portfolio[(8)]							
Various locations	Non-recourse	Feb 2027	4.66%	69,836	69,409	70,427	69,962
Subtotal mortgage notes payable, net				$ 1,404,107	$ 1,387,395	$ 1,431,470	$ 1,412,957
Other notes payable							
Oak Cottage							
Santa Barbara, CA	Non-recourse	Feb 2022	6.00%	3,914	3,914	3,914	3,914
Subtotal other notes payable, net				$ 3,914	$ 3,914	$ 3,914	$ 3,914
Total mortgage and other notes payable, net				$ 1,408,021	$ 1,391,309	$ 1,435,384	$ 1,416,871

(1) Floating rate borrowings total $131.8 million of principal outstanding and reference one-month LIBOR.
(2) The difference between principal amount and carrying value of mortgage notes payable is attributable to deferred financing costs, net for all borrowings, other than the Winterfell portfolio which is attributable to below market debt intangibles.

(3) In January 2021, the Company refinanced its existing mortgage note payable with a new $26.0 million mortgage note payable. The new mortgage note carries a fixed interest rate of 3.0% through February 2024, followed by the greater of the fixed rate or one-month LIBOR plus 2.80% through the initial maturity date of February 2026.
(4) Composed of seven individual mortgage notes payable secured by seven healthcare real estate properties, cross-collateralized and subject to cross-default.
(5) Composed of four individual mortgage notes payable secured by four healthcare real estate properties, cross-collateralized and subject to cross-default.
(6) Includes $382.2 million principal amount of fixed rate borrowings, secured by 14 healthcare real estate properties, cross-collateralized and subject to cross-default, as well as a supplemental financing totaling $72.8 million of principal, secured by seven 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 and other notes payable based on final maturity (dollars in thousands):

July 1 to December 31, 2021	$ 14,601
Years Ending December 31:	
2022	478,740
2023	19,696
2024	20,406
2025	670,302
Thereafter	204,276
Total	$ 1,408,021

As of June 30, 2021, the operator for the Arbors portfolio failed to remit rent and comply with other contractual terms of its lease agreement, which resulted in a default under the operator's lease, which in turn, resulted in a non-monetary default under the mortgage notes collateralized by the properties. During the six months ended June 30, 2021, the Company has remitted contractual debt service and is in compliance with the other contractual terms under the mortgage notes collateralized by the properties.

In response to the operational challenges resulting from the COVID-19 pandemic, the Company entered into forbearance agreements to defer contractual debt service for borrowings on properties within the Aqua, Rochester, Arbors, Winterfell and Fountains portfolios. The aggregate outstanding principal amount of these borrowings totaled $1.3 billion as of June 30, 2021. The deferred debt service must be repaid following the forbearance period with no additional interest or penalties incurred by the Company, subject to satisfaction of certain conditions. The deferral of payments ended during the year ended December 31, 2020 and the Company has resumed remitting debt service, together with the deferred debt service, on these mortgage notes payable. As of June 30, 2021 borrowings on properties within the Rochester, Winterfell and Fountains portfolios have deferred debt service outstanding. These borrowings remain in technical default and are subject to the terms of the forbearance agreements until all deferred debt service is repaid. Deferred debt service, which totaled $3.1 million as of June 30, 2021, is scheduled to be repaid in full for all borrowings by January 2022.

In addition, the forbearance agreement for a mortgage note payable on a property within the Rochester portfolio temporarily waived financial covenants under the mortgage note through December 31, 2020. As of June 30, 2021, the property is in compliance with the financial covenants under the mortgage note.

Line of Credit - Related Party

The following table presents the Company's borrowings under the Sponsor line of credit as of June 30, 2021 (dollars in thousands):

	Capacity	Principal Outstanding	Contractual Interest Rate	Maturity Date
Sponsor Line of Credit	$ 35,000	$ 35,000	LIBOR + 3.50%	Jun 2023

In October 2017, the Company obtained a revolving line of credit from an affiliate of DigitalBridge (the "Sponsor Line"). As of June 30, 2021, the Sponsor Line has a borrowing capacity of $35.0 million at an interest rate of 3.5% plus LIBOR. In June 2021, the maturity date was extended through June 2023.

In April 2020, the Company borrowed $35.0 million under the Sponsor Line to improve its liquidity position as a result of the COVID-19 pandemic. For the three months ended June 30, 2021 and 2020, interest expense on the Company's consolidated statements of operations includes Sponsor Line interest of $0.3 million, respectively. For the six months ended June 30, 2021 and 2020, Sponsor Line interest totaled $0.6 million and $0.3 million, respectively. For additional information, refer to Note 14, "Subsequent Events."

7. Related Party Arrangements

Advisor

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

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

- the payment of the asset management fee entirely in the form of shares of common stock of the Company; and
- beginning on January 1, 2022, a reduction of the asset management fee with respect to the Company's corporate cash balances exceeding $75.0 million, subject to the terms and conditions set forth in the Advisory Agreement.

Fees to Advisor

Asset Management Fee

Effective January 1, 2018, the Advisor receives a monthly asset management fee equal to one-twelfth of 1.5% of the Company's most recently published aggregate estimated net asset value, as may be subsequently adjusted for any special distribution declared by the board of directors in connection with a sale, transfer or other disposition of a substantial portion of the Company's assets. Effective July 1, 2021, the asset management fee is to be paid entirely in shares of the Company's common stock at a price per share equal to the most recently published net asset value per share and beginning on January 1, 2022 the fee will be reduced if the Company's corporate cash balances exceeds $75.0 million, subject to the terms and conditions set forth in the Advisory Agreement.

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

Incentive Fee

The Advisor is entitled to receive distributions equal to 15.0% of net cash flows of the Company, whether from continuing operations, repayment of loans, disposition of assets or otherwise, but only after stockholders have received, in the aggregate, cumulative distributions equal to their invested capital plus a 6.75% cumulative, non-compounded annual pre-tax return on such invested capital. From inception through June 30, 2021, the Advisor has not received any incentive fees from the Company.

Acquisition Fee

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

Disposition Fee

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

Reimbursements to Advisor

Operating Costs

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

Summary of Fees and Reimbursements

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

Type of Fee or Reimbursement	Financial Statement Location	Due to Related Party as of December 31, 2020	Six Months Ended June 30, 2021 Incurred	Six Months Ended June 30, 2021 Paid	Due to Related Party as of June 30, 2021 (Unaudited)
Fees to Advisor Entities					
Asset management[(1)]	Asset management fees-related party	$ 923	$ 5,538	$ (5,538) [(2)]	$ 923
Reimbursements to Advisor Entities					
Operating costs[(2)]	General and administrative expenses	7,395	5,660	(10,284)	2,771
Total		$ 8,318	$ 11,198	$ (15,822)	$ 3,694

(1) Includes $5.0 million paid in shares of the Company's common stock.
(2) As of June 30, 2021, the Advisor did not have any unreimbursed operating costs which remained eligible to be allocated to the Company.

Pursuant to the advisory agreement, for the six months ended June 30, 2021, the Company issued 1.3 million shares totaling $5.0 million, based on the estimated value per share on the date of each issuance, to an affiliate of the Advisor as part of its asset management fee. As of June 30, 2021, the Advisor, the Sponsor and their affiliates owned a total of 6.0 million shares or $23.3 million of the Company's common stock based on the Company's most recent estimated value per share. As of June 30, 2021, the Advisor, the Sponsor and their affiliates owned 3.1% of the total outstanding shares of the Company's common stock.

Investments in Joint Ventures

Solstice, the manager of the Winterfell portfolio, is a joint venture between affiliates of ISL, which owns 80.0%, and the Company, which owns 20.0%. For the six months ended June 30, 2021, the Company recognized property management fee expense of $2.4 million paid to Solstice related to the Winterfell portfolio.

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

In connection with the acquisition of the Diversified US/UK portfolio by NorthStar Realty Finance Corp. ("NorthStar Realty"), now a subsidiary of DigitalBridge, and the Company, the Sponsor acquired a 43.0%, as adjusted, ownership interest in American Healthcare Investors, LLC ("AHI").

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

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

Mezzanine Loan

In July 2015, the Company originated a $75.0 million mezzanine loan to a subsidiary of the Espresso joint venture, of which the Company owns a minority interest. Refer to Note 5, "Real Estate Debt Investments" for further discussion.

Line of Credit - Related Party

The Company has the Sponsor Line, which provides up to $35.0 million at an interest rate of 3.5% plus LIBOR. Refer to Note 6, "Borrowings" for further discussion.

8. Equity-Based Compensation

The Company adopted a long-term incentive plan, as amended (the "Plan"), which it may use to attract and retain qualified officers, directors, employees and consultants, as well as an independent directors compensation plan, which is a component of the Plan. Under the Plan, 2.0 million shares of restricted common stock were eligible to be issued for any equity-based awards granted under the Plan.

Pursuant to the Plan, as of June 30, 2021, the Company's independent directors were granted a total of 159,932 shares of restricted common stock and 66,840 restricted stock units totaling $1.3 million and $0.3 million, respectively, based on the share price on the date of each grant.

The restricted 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 $73,208 and $39,542, for the three months ended June 30, 2021 and 2020, respectively, and $118,833 and $77,667 for the six months ended June 30, 2021 and 2020, 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 and restricted stock units totaled $334,417 and $193,250 as of June 30, 2021 and December 31, 2020, respectively. Unvested shares totaled 11,889 and 30,403 as of June 30, 2021 and December 31, 2020, respectively. Unvested restricted stock units totaled 66,840 as of June 30, 2021.

9. Stockholders' Equity

Common Stock

The Company stopped accepting subscriptions for its Offering on December 17, 2015 and all of the shares initially registered for its Offering were issued on or before January 19, 2016. The Company issued 173.4 million shares of common stock generating gross proceeds of $1.7 billion, excluding proceeds from the DRP.

Distribution Reinvestment Plan

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

Effective Date	Estimated Value per Share	Valuation Date
April 2016	$ 8.63	12/31/2015
December 2016	9.10	6/30/2016
December 2017	8.50	6/30/2017
December 2018	7.10	6/30/2018
December 2019	6.25	6/30/2019
December 2020	3.89	6/30/2020

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

For the six months ended June 30, 2021, the Company has not issued shares of common stock pursuant to the DRP. From inception through June 30, 2021, the Company issued 25.7 million shares of common stock, generating gross offering proceeds of $232.6 million pursuant to the DRP.

Distributions

Effective February 1, 2019, the Company's board of directors determined to suspend distributions in order to preserve capital and liquidity and no distributions were declared during the six months ended June 30, 2021.

In order to continue to qualify as a REIT, the Company must distribute annually dividends equal to at least 90% of its REIT taxable income (with certain adjustments). For the six months ended June 30, 2021, the Company generated net operating losses for tax purposes. The Company did not have positive REIT taxable income for its taxable year ending December 31, 2020, therefore, it was not required to make distributions to its stockholders in 2020 to qualify as a REIT. The Company's most recently filed tax return is for the year ended December 31, 2019 and includes a net operating loss carry-forward of $86.0 million.

Share Repurchase Program

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

In April 2020, the Company's board of directors determined to suspend all repurchases under the Share Repurchase Program effective April 30, 2020 in order to preserve capital and liquidity and has not repurchased any shares during the six months ended June 30, 2021.

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

10. Non-controlling Interests

Operating Partnership

Non-controlling interests include the aggregate limited partnership interests in the Operating Partnership held by limited partners, other than the Company. Income (loss) attributable to the non-controlling interests is based on the limited partners' ownership percentage of the Operating Partnership. Income (loss) allocated to the Operating Partnership non-controlling interests for the three and six months ended June 30, 2021 and 2020 was de minimis.

Other

Other non-controlling interests represent third-party equity interests in ventures that are consolidated with the Company's financial statements. Net loss attributable to the other non-controlling interests was $0.1 million for the three months ended June 30, 2021, and net income attributable to the other non-controlling interests was $0.2 million for the six months ended June 30, 2021. Net loss attributable to the other non-controlling interests was $0.7 million and $0.8 million for the three and six months ended June 30, 2020, respectively.

11. Fair Value

Fair Value Measurement

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

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

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

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

a) Quoted prices for similar assets or liabilities in active markets.

b) Quoted prices for identical or similar assets or liabilities in non-active markets.

c) Pricing models whose inputs are observable for substantially the full term of the asset or liability.

d) Pricing models whose inputs are derived principally from or corroborated by observable market data for substantially the full term of the asset or liability.

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

Fair Value of Financial Instruments

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

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

	June 30, 2021 (Unaudited)			December 31, 2020		
	Principal Amount	Carrying Value	Fair Value	Principal Amount	Carrying Value	Fair Value
Financial assets:[1]						
Real estate debt investments, net	$ 27,745	$ 20,053	$ 27,745	$ 74,182	$ 55,864	$ 74,182
Financial liabilities:[1]						
Mortgage and other notes payable, net	$ 1,408,021	$ 1,391,309	$ 1,339,064	$ 1,435,384	$ 1,416,871	$ 1,354,832
Line of credit - related party	35,000	35,000	35,000	35,000	35,000	35,000

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

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

Real Estate Debt Investments, Net

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

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

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

Nonrecurring Fair Values

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

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

	June 30, 2021 (Unaudited)		December 31, 2020	
	Fair Value	Impairment Losses	Fair Value	Impairment Losses
Operating real estate, net	$ 1,900	$ 786	$ 234,650	$ 164,215
Assets held for sale	—	—	5,000	1,753

Operating Real Estate, Net

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

Assets Held For Sale

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

12. Segment Reporting

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

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

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

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

	Direct Investments					
Three Months Ended June 30, 2021	**Net Lease**	**Operating**	**Unconsolidated Investments**	**Debt**	**Corporate[(1)]**	**Total**
Property and other revenues	$ 5,706	$ 58,160	$ —	$ —	$ 41	$ 63,907
Interest income on debt investments	—	—	—	1,387	—	1,387
Real estate properties - operating expenses	—	(45,101)	—	—	—	(45,101)
Interest expense	(2,890)	(12,753)	—	—	(319)	(15,962)
Transaction costs	—	—	—	—	—	—
Asset management fees - related party	—	—	—	—	(2,769)	(2,769)
General and administrative expenses	(66)	(114)	—	—	(2,899)	(3,079)
Depreciation and amortization	(4,006)	(11,551)	—	—	—	(15,557)
Impairment loss	—	—	—	—	—	—
Other income, net	—	(468)	—	—	—	(468)
Realized gain (loss) on investments and other	(159)	48	—	—	—	(111)
Equity in earnings (losses) of unconsolidated ventures	—	—	10,766	—	—	10,766
Income tax benefit (expense)	—	(11)	—	—	—	(11)
Net income (loss)	$ (1,415)	$ (11,790)	$ 10,766	$ 1,387	$ (5,946)	$ (6,998)

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

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

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

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

	Direct Investments					
Six Months Ended June 30, 2021	**Net Lease**	**Operating**	**Unconsolidated Investments**	**Debt**	**Corporate(1)**	**Total**
Property and other revenues	$ 4,931	$ 116,268	$ —	$ —	$ 42	$ 121,241
Interest income on debt investments	—	—	—	3,600	—	3,600
Real estate properties - operating expenses	(25)	(90,694)	—	—	—	(90,719)
Interest expense	(5,763)	(25,588)	—	—	(636)	(31,987)
Transaction costs	—	(54)	—	—	—	(54)
Asset management fees - related party	—	—	—	—	(5,538)	(5,538)
General and administrative expenses	(107)	(114)	—	—	(5,891)	(6,112)
Depreciation and amortization	(7,860)	(23,084)	—	—	—	(30,944)
Impairment loss	(786)	—	—	—	—	(786)
Other income, net	—	6,892	—	—	—	6,892
Realized gain (loss) on investments and other	(159)	7,563	—	—	—	7,404
Equity in earnings (losses) of unconsolidated ventures	—	—	9,876	—	—	9,876
Income tax expense	—	(26)	—	—	—	(26)
Net income (loss)	$ (9,769)	$ (8,837)	$ 9,876	$ 3,600	$ (12,023)	$ (17,153)

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

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

Six Months Ended June 30, 2020	Direct Investments: Net Lease	Direct Investments: Operating	Unconsolidated Investments	Debt	Corporate[1]	Total
Property and other revenues	$ 16,448	$ 126,293	$ —	$ —	$ 142	$ 142,883
Interest income on debt investments	—	—	—	3,811	—	3,811
Real estate properties - operating expenses	(13)	(91,700)	—	—	—	(91,713)
Interest expense	(5,913)	(26,924)	—	—	(295)	(33,132)
Transaction costs	—	(7)	—	—	—	(7)
Asset management fees - related party	—	—	—	—	(8,862)	(8,862)
General and administrative expenses	(105)	(100)	—	(19)	(5,093)	(5,317)
Depreciation and amortization	(7,401)	(25,583)	—	—	—	(32,984)
Impairment loss	(722)	(90,715)	—	—	—	(91,437)
Other income, net	—	—	—	—	—	—
Realized gain (loss) on investments and other	—	—	—	—	—	—
Equity in earnings (losses) of unconsolidated ventures	—	—	(35,756)	—	—	(35,756)
Income tax benefit (expense)	—	(28)	—	—	—	(28)
Net income (loss)	$ 2,294	$ (108,764)	$ (35,756)	$ 3,792	$ (14,108)	$ (152,542)

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

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

Total Assets:	Direct Investments: Net Lease	Direct Investments: Operating	Unconsolidated Investments	Debt	Corporate[1]	Total
June 30, 2021 (unaudited)	$ 336,427	$ 1,199,442	$ 224,744	$ 20,376	$ 89,140	$ 1,870,129
December 31, 2020	348,688	1,223,045	229,170	56,502	61,031	1,918,436

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

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

Operator / Manager		Properties Under Management	Units Under Management[1]	Six Months Ended June 30, 2021: Property and Other Revenues[2]	Six Months Ended June 30, 2021: % of Total Property and Other Revenues
Watermark Retirement Communities		29	5,049	$ 65,950	54.4 %
Solstice Senior Living	(3)	32	4,000	48,106	39.7 %
Avamere Health Services		5	453	8,384	6.9 %
Arcadia Management	(4)	4	572	(5,520)	(4.6)%
Integral Senior Living	(5)	1	44	4,279	3.5 %
Other	(6)	—	—	42	0.1 %
Total		71	10,118	$ 121,241	100.0 %

(1) Represents rooms for ALFs and ILFs and beds for MCFs and SNFs, based on predominant type.
(2) Includes rental income received from the Company's net lease properties as well as rental income, ancillary service fees and other related revenue earned from ILF residents and resident fee income derived from the Company's ALFs, MCFs and CCRCs, which includes resident room and care charges, ancillary fees and other resident service charges.
(3) Solstice is a joint venture of which affiliates of ISL own 80%.
(4) During the six months ended June 30, 2021, the Company recorded rental income to the extent payments were received. Rental income was reduced by $7.4 million for the write-off of straight-line rent receivables, as full collection of rent under the lease was deemed not to be probable.
(5) Property and other revenues includes amounts from two properties sold in June 2021, which are excluded from the property count.
(6) Consists primarily of interest income earned on corporate-level cash accounts.

13. Commitments and Contingencies

As of June 30, 2021, the Company believes there are no material contingencies that would affect its results of operations, cash flows or financial position.

Litigation and Claims

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

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

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.

14. Subsequent Events

The following is a discussion of material events which have occurred subsequent to June 30, 2021 through the issuance of the consolidated financial statements.

Real Estate Debt Investment

In July 2021, the Company received principal repayments on its mezzanine loan debt investment totaling $2.4 million. In August 2021, the Company received full repayment for the outstanding principal balance of its mezzanine loan, which totaled $25.4 million.

DigitalBridge Sponsor Line of Credit

In July 2021, the Company repaid in full the $35.0 million outstanding borrowings under the Sponsor Line.

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 manage a diversified portfolio of investments in healthcare real estate, owned directly or through joint ventures, with a focus on the mid-acuity seniors housing sector, which we define as assisted living, memory care, skilled nursing and independent living facilities and continuing care retirement communities. Primarily through joint ventures, we are also invested in other healthcare property types, including medical office buildings, hospitals, rehabilitation facilities and ancillary healthcare services businesses. Our investments are predominantly in the United States, but through joint ventures we also have international investments in the 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 have conducted our operations, and intend to do so in the future, so as to continue to qualify as a REIT for U.S. federal income tax purposes.

We are externally managed and have no employees. We are sponsored by DigitalBridge Group, Inc. (formerly Colony Capital, Inc.) (NYSE: DBRG), or DigitalBridge or our Sponsor, a global REIT, that owns, operates and invests across the full spectrum of digital infrastructure and real estate including cell towers, data centers, fiber, small cells and edge infrastructure. Effective June 21, 2021 the Sponsor changed its name from Colony Capital, Inc. to DigitalBridge Group, Inc. and its ticker symbol from "CLNY" to "DBRG." DigitalBridge manages capital on behalf of its stockholders, as well as institutional and retail investors. Our advisor, CNI NSHC Advisors, LLC, or our Advisor, is a subsidiary of DigitalBridge and manages our day-to-day operations pursuant to an advisory agreement.

From inception through June 30, 2021, we raised total gross proceeds from the sale of shares of our common stock totaling $2.0 billion, including $232.6 million pursuant to our distribution reinvestment plan, or our DRP, collectively referred to as our Offering.

Significant Developments

COVID-19 Update

Our first priority continues to be the health and safety of the residents and staff at our communities and we remain focused on supporting our managers and operators as they address the challenges presented by the coronavirus 2019, or COVID-19 pandemic. At the same time, we are actively managing capital needs and liquidity to mitigate the financial impact of COVID-19 on our business and preserve long-term value for our stockholders.

The vast majority of communities in our direct and unconsolidated investments have experienced confirmed COVID-19 cases amongst residents or staff, which has resulted in restrictions on admissions and limited inquiries and tours, significantly decreasing the number of move-ins and increasing move-outs. This has led to declines in revenues, increases in cost burdens and overall lower operating cash flows and financial results.

The recovery from the impact of the COVID-19 pandemic on our operational and financial performance will depend on a variety of factors, which may differ considerably across regions and fluctuate over time. Recent guidance from state and local governments, including the lifting of certain restrictions, the resumption of normal business operations in many municipalities, and lower reported infection rates are encouraging signs towards a recovery from the effects of the pandemic.

Significant vaccine deployment and acceptance has begun to mitigate the number of confirmed COVID-19 cases. The communities of our direct investments and unconsolidated investments have continued to host clinics to administer the COVID-19 vaccine. Within our direct investments, the rate of acceptance amongst residents has exceeded 90% and our managers and operators continue to educate and encourage participation amongst their staff. Decreases in infection and transmission rates within our communities has helped to reduce preventative operating costs that continue to be incurred. However, new strains and variants of the virus have caused a resurgence and an increase in reported infection rates, which may impact the general economic recovery. Occupancy challenges are still anticipated until such time that the rate of resident move-outs is outpaced by new resident admissions, for which the future trend remains uncertain.

We anticipate a recovery of our healthcare real estate business will span over future periods. An extended recovery period increases the risk of a prolonged negative impact on our financial condition, results of operations and estimated net asset value. However, we continue to see demand and lead generation for our communities and remain optimistic on the long-term outlook for the seniors housing industry.

At this time, the progression of the global economic recovery from the broad effects of the pandemic is difficult to assess and estimate the future impact on our results of operations. Accordingly, any estimates of the effects of COVID-19 as reflected and/or discussed are based upon our best estimates using information known to us as of the date of this Quarterly Report on Form 10-Q, and such estimates may change in the future, the effects of which could be material.

Operating Performance

The following is a summary of the performance of our investment segments for the three months ended June 30, 2021 as compared to the three months ended March 31, 2021. For additional information on financial results, refer to "—Results of Operations."

Direct Investments - Operating

During the three months ended June 30, 2021, our direct operating investments experienced a 42.3% increase in the number of resident move-ins over the three months ended March 31, 2021, while the number of move-outs declined 7.7% over the same period. A summary of average occupancy by manager is as follows:

	Average Monthly Occupancy			Average Quarterly Occupancy		
Operator / Manager	**June 2021**	**March 2021**	**Variance**	**Q2 2021**	**Q1 2021**	**Variance**
Watermark Retirement Communities	74.0 %	72.2 %	1.8 %	73.4 %	73.2 %	0.2 %
Solstice Senior Living	71.8 %	71.7 %	0.1 %	71.7 %	72.2 %	(0.5)%
Avamere Health Services	81.5 %	80.4 %	1.1 %	80.1 %	80.1 %	— %
Integral Senior Living	97.5 %	100.0 %	(2.5)%	99.2 %	95.0 %	4.2 %
Direct Investments - Operating	**73.5 %**	**72.5 %**	**1.0 %**	**73.1 %**	**73.2 %**	**(0.1)%**

On a same store basis, rental and resident fee income of our direct operating investments increased to $57.1 million for the three months ended June 30, 2021 as compared to $55.9 million for the three months ended March 31, 2021. Improved volume of resident move-ins increased sales and marketing expenses. Further, the lifting of COVID-19 restrictions and resumption of normalized business operations has allowed our managers to resume deferred repairs and maintenance projects and begin to fill open staff positions. On a same store basis, property operating expenses increased to $42.9 million for the three months ended June 30, 2021 as compared to $41.1 million for the three months ended March 31, 2021.

Overall, on a same store basis, rental and resident fee income, net of property operating expenses, of our direct operating investments decreased to $14.2 million for the three months ended June 30, 2021 as compared to $14.8 million for the three months ended March 31, 2021. We incurred $1.0 million of COVID-19 related expenses for the three months ended June 30, 2021 as compared to $1.6 million for the three months ended March 31, 2021, which are excluded from the same store comparison.

We applied for grants under the Provider Relief Fund administered by the U.S Department of Health & Human Services, or DHHS, and during the three months ended March 31, 2021, we received and recognized grant income totaling $7.4 million. These grants are intended to mitigate the negative financial impact of the COVID-19 pandemic as reimbursements for expenses incurred to prevent, prepare for and respond to COVID-19 and lost revenues attributable to COVID-19. Provided that we attest to and comply with certain terms and conditions of the grants, we will not be required to repay these grants in the future. During the three months ended June 30, 2021, we did not receive any grants under the Provider Relief Fund.

Direct Investments - Net Lease

During the three months ended June 30, 2021, we recognized $5.2 million of rental income as compared to $6.9 million during the three months ended March 31, 2021, excluding straight-line rental adjustments in both periods. A summary of rental income from our direct net lease investments is as follows:

- We sold our Smyrna property in May 2021. No rental income was received or recognized from the operator during the six months ended June 30, 2021.
- The operator of our Arbors portfolio has failed to remit rent and satisfy other lease conditions. Contractual monthly rent obligations have been remitted through March 2021 and we have recorded rental income to the extent rental payments were received during the three months ended June 30, 2021.

- Despite the adverse effects of COVID-19 on its operations, the operator of our Fountains net lease portfolio has remitted full contractual rent. In April 2021, we executed a lease modification that allows the operator to defer up to $3.0 million of contractual rent payments over the remaining term of the lease, which will be forgiven at the expiration or earlier termination of the lease, subject to the satisfaction and compliance with certain terms and conditions. The Company has recognized rental revenue on a straight-line basis based on the modified terms of the lease, with the assumption that the deferred contractual rent payments will be forgiven..

Debt Investments

During the three months ended June 30, 2021, interest income generated by our mezzanine loan debt investment totaled $1.4 million, a decrease from $2.2 million for the three months ended March 31, 2021, as a result of receiving principal repayments. The borrower funded these principal repayments through net proceeds generated from the sale of underlying collateral and available operating cash flow.

Unconsolidated Investments

Overall, our unconsolidated investment portfolios experienced similar operational challenges presented by the COVID-19 pandemic as our direct operating investments. During the three months ended June 30, 2021, the Eclipse and Espresso joint ventures recognized gains on sub-portfolio sales, which increased equity in earnings. Equity in earnings totaled $10.8 million for the three months ended June 30, 2021 as compared to a $0.9 million loss for the three months ended March 31, 2021.

During the three months ended June 30, 2021, we received distributions from our Diversified US/UK and Envoy unconsolidated investments totaling $2.2 million. Distributions continued to be limited by reinvestment and development in the Trilogy joint venture, operational declines in the Eclipse joint ventures and debt repayments in the Espresso joint venture, all of which have negatively impacted our liquidity position.

Investments, Financings and Disposition Activities

The following is a summary of significant investment, financing and disposition activities during the six months ended June 30, 2021:

- In January 2021, we refinanced an existing $18.7 million note payable, collateralized by a property within the Aqua portfolio, with a $26.0 million mortgage note payable. The new mortgage note carries a fixed interest rate of 3.0% through February 2024 and has an initial maturity date of February 2026.
- In March 2021, we completed the sale of a property within the Aqua portfolio for $22.0 million. The sale generated net proceeds of $0.9 million, after the repayment of the outstanding mortgage principal balance of $20.1 million and transaction costs.
- In April 2021, we extended the maturity date of a mortgage note payable for a property within the Rochester portfolio to August 2022 and made a $1.0 million principal repayment.
- In May 2021, we completed the sale of the Smyrna net lease property, which generated net proceeds of approximately $1.7 million.
- In June 2021, we completed the sale of the two properties comprising the Kansas City portfolio, which generated net proceeds of approximately $4.7 million.
- We have received principal repayments on our mezzanine loan debt investment which totaled $46.6 million. The borrower funded these principal repayments through net proceeds generated from the sale of underlying collateral and available operating cash flow.
- We recorded impairment losses totaling $0.8 million for a net lease property.

Recent Developments

The following is a discussion of material events which have occurred subsequent to June 30, 2021 through August 12, 2021.

Real Estate Debt Investment

In July 2021, we received principal repayments on our mezzanine loan debt investment totaling $2.4 million. In August 2021, we received full repayment for the outstanding principal balance of our mezzanine loan, which totaled $25.4 million.

DigitalBridge Sponsor Line of Credit

In July 2021, we repaid in full the $35.0 million outstanding borrowings under our Sponsor Line.

Our Investments

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

Our primary investment segments are as follows:

- Direct Investments - Net Lease - Healthcare properties operated under net leases with an operator.
- Direct Investments - Operating - Healthcare properties operated pursuant to management agreements with healthcare managers.
- Unconsolidated Investments - Healthcare joint ventures, including properties operated under net leases with an operator or pursuant to management agreements with healthcare managers, in which we own a minority interest.
- Debt Investments - Mortgage loans or mezzanine loans to owners of healthcare real estate. As of June 30, 2021, we had one mezzanine loan.

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

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

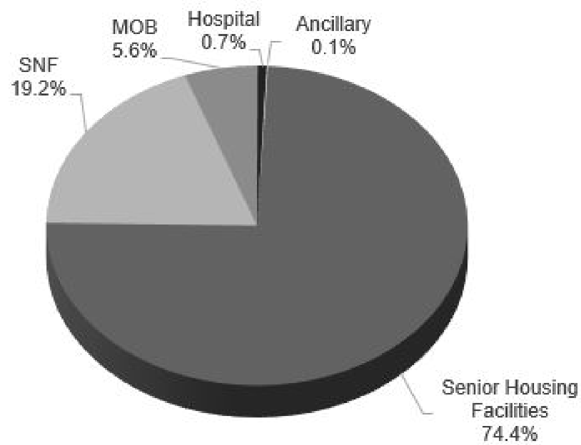
The following table presents a summary of investments as of June 30, 2021 (dollars in thousands):

Investment Type / Portfolio	Amount[3]	Properties[1][2] Seniors Housing	MOB	SNF	Hospitals	Total	Primary Locations	Ownership Interest
Direct Investments - Net Lease								
Watermark Fountains[4]	$ 288,836	6	—	—	—	6	Various	100.0 %
Arbors	126,825	4	—	—	—	4	Northeast	100.0 %
Subtotal	$ 415,661	10	—	—	—	10		
Direct Investments - Operating								
Winterfell	$ 904,985	32	—	—	—	32	Various	100.0 %
Watermark Fountains[4]	356,914	9	—	—	—	9	Various	97.0 %
Rochester	219,518	10	—	—	—	10	Northeast	97.0 %
Watermark Aqua	77,521	4	—	—	—	4	Southwest/Midwest	97.0 %
Avamere	99,438	5	—	—	—	5	Northwest	100.0 %
Oak Cottage	19,427	1	—	—	—	1	West	100.0 %
Subtotal	$ 1,677,803	61	—	—	—	61		
Unconsolidated Investments								
Diversified US/UK	$ 445,855	92	106	39	9	246	Various	14.3 %
Trilogy[5]	395,790	21	—	69	—	90	Various	23.2 %
Espresso	221,243	5	—	105	—	110	Various	36.7 %
Eclipse	37,291	42	—	9	—	51	Various	5.6 %
Solstice[6]	—	—	—	—	—	—	Various	20.0 %
Subtotal	$ 1,100,179	160	106	222	9	497		
Debt Investments								
Mezzanine Loan[7]	$ 27,745	—	—	—	—	—		
Total Investments	$ 3,221,388	231	106	222	9	568		

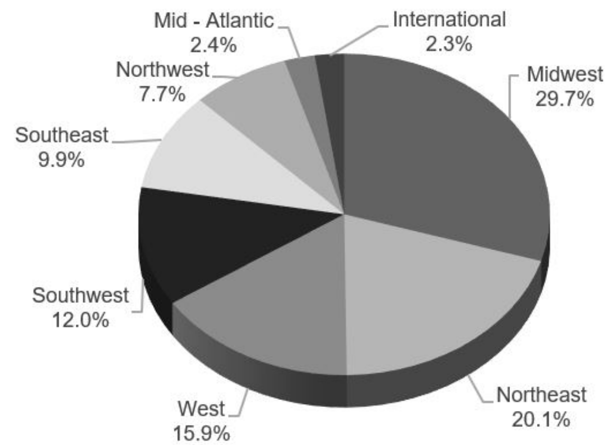
(1) Classification based on predominant services provided, but may include other services.
(2) Excludes properties held for sale.
(3) Based on cost for real estate equity investments, which includes purchase price allocations related to net intangibles, deferred costs, other assets, if any, and adjusted for subsequent capital expenditures. Does not include cost of properties held for sale. For real estate debt, based on principal amount. For real estate equity investments, includes cost associated with purchased land parcels that are not included in the count.
(4) Watermark Fountains portfolio consists of six wholly-owned net lease properties totaling $288.8 million and nine operating facilities totaling $356.9 million, in which we own a 97.0% interest. One of the operating facilities consists of eight condominium units in which we hold future interests.
(5) Includes institutional pharmacy, therapy businesses and lease purchase buy-out options in connection with the Trilogy investment, which are not subject to property count.
(6) 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%.
(7) Our mezzanine loan was originated to a subsidiary of our joint venture with Formation Capital, LLC, or Formation, and Safanad Management Limited, which we refer to as Espresso.

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

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.

Our investments include the following types of healthcare facilities as of June 30, 2021:

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

the resident to a refund of the original entrance fee paid plus a percentage of the appreciation of the unit upon resale.

- *Skilled Nursing Facilities.* SNFs provide services that include daily nursing, therapeutic rehabilitation, social services, housekeeping, nutrition and administrative services for individuals requiring certain assistance for activities in daily living. A typical SNF includes mostly one and two bed units, each equipped with a private or shared bathroom and community dining facilities. Revenues generated from SNFs typically come from government reimbursement programs, including Medicare and Medicaid, as well as private pay sources, including private insurance.
- *Medical Office Buildings.* 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.
- *Hospitals. S*ervices provided by operators and tenants in hospitals are paid for by private sources, third-party payers (e.g., insurance and Health Maintenance Organizations), or through the Medicare and Medicaid programs. Our hospital properties typically will include acute care, long-term acute care, specialty and rehabilitation hospitals and generally are leased to operators under triple-net lease structures.

Direct Investments - Operating

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

The weighted average resident occupancy of our operating properties was 73.1% for the three months ended June 30, 2021.

Direct Investments - Net Lease

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

Our net lease properties are leased to two operators. The remaining lease term for each operator as of June 30, 2021 is as follows:

Operator	**Properties Leased**	**Remaining Lease Term (Years)**
Watermark Retirement Communities	6 (1)	0.7
Arcadia Management	4 (2)	8.3

(1) The lease for the properties operated by Watermark Retirement Communities ("Watermark") expires in March 2022. Watermark has provided notice it will not renew the lease and it may be difficult to find a replacement operator to operate these properties.

(2) Operator has failed to remit rent and comply with other contractual terms of its lease agreement, which resulted in a default under the operator's lease as of June 30, 2021.

Operators and Managers

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

Operator / Manager		Properties Under Management	Units Under Management(1)	Six Months Ended June 30, 2021: Property and Other Revenues(2)	Six Months Ended June 30, 2021: % of Total Property and Other Revenues
Watermark Retirement Communities		29	5,049	$ 65,950	54.4 %
Solstice Senior Living	(3)	32	4,000	48,106	39.7 %
Avamere Health Services		5	453	8,384	6.9 %
Arcadia Management	(4)	4	572	(5,520)	(4.6)%
Integral Senior Living	(5)	1	44	4,279	3.5 %
Other	(6)	—	—	42	0.1 %
Total		71	10,118	$ 121,241	100.0 %

(1) Represents rooms for ALFs and ILFs and beds for MCFs and SNFs, based on predominant type.
(2) Includes rental income received from our net lease properties as well as rental income, ancillary service fees and other related revenue earned from ILF residents and resident fee income derived from our ALFs, MCFs and CCRCs, which includes resident room and care charges, ancillary fees and other resident service charges.
(3) Solstice is a joint venture of which affiliates of ISL own 80%.
(4) During the six months ended June 30, 2021, we recorded rental income to the extent lease payments were received. Rental income was reduced by $7.4 million for the write-off of straight-line rent receivables, as full collection of rent under the lease was deemed not to be probable.
(5) Property and other revenues includes amounts from two properties sold in June 2021, which are excluded from the property count.
(6) Consists primarily of interest income earned on corporate-level cash accounts.

Watermark Retirement Communities and Solstice, together with their affiliates, manage substantially all of our operating properties. As a result, we are dependent upon their personnel, expertise, technical resources and information systems, proprietary information, good faith and judgment to manage our properties efficiently and effectively. Through our 20.0% ownership of Solstice, we are entitled to certain rights and minority protections. As Solstice is a joint venture formed exclusively to operate the Winterfell portfolio, Solstice has generated, and may continue to generate, operating losses if declines in occupancy and operating revenues at our Winterfell portfolio continue. During the six months ended June 30, 2021, we contributed an additional $0.3 million to Solstice.

Unconsolidated Investments

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

Portfolio	Partner	Acquisition Date	Ownership	AUM(2)	Equity Investment(3)	Properties as of June 30, 2021(1): Seniors Housing Facilities	MOB	SNF	Hospitals	Total
Eclipse	DigitalBridge/ Formation Capital, LLC	May-2014	5.6 %	$ 37,291	$ 23,400	42	—	9	—	51
Diversified US/UK	DigitalBridge	Dec-2014	14.3 %	445,855	243,544	92	106	39	9	246
Espresso	Formation Capital, LLC/Safanad Management Limited	Jul-2015	36.7 %	221,243	55,146	5	—	105	—	110
Trilogy	Griffin-American Healthcare REIT III & IV /Management Team of Trilogy Investors, LLC	Dec-2015	23.2 %	395,790	189,032	21	—	69	—	90
Subtotal				$ 1,100,179	$ 511,122	160	106	222	9	497
Solstice		Jul-2017	20.0 %	—	252	—	—	—	—	—
Total				$ 1,100,179	$ 511,374	160	106	222	9	497

(1) Excludes properties classified as held for sale.
(2) Represents assets under management based on cost, which includes purchase price allocations related to net intangibles, deferred costs, other assets, if any, and adjusted for subsequent capital expenditures. Does not include cost of properties held for sale.
(3) Represents initial and subsequent contributions to the underlying joint venture through June 30, 2021.

- *Eclipse.* Portfolio of SNFs and ALFs leased to, or managed by, a variety of different operators/managers across the United States. Our Sponsor and other minority partners and Formation own 86.4% and 8.0% of this portfolio, respectively.

- *Diversified US/UK.* Portfolio of SNFs, ALFs, MOBs and hospitals across the United States and care homes in the United Kingdom. Our Sponsor and other minority partners own the remaining 85.7% of this portfolio.

- *Espresso.* Portfolio of predominantly SNFs, located in various regions across the United States, and organized in five sub-portfolios and currently leased to seven different operators under net leases. An affiliate of Formation acts as the general partner and manager of this investment. Formation and Safanad Management Limited own the remaining 63.3% of this portfolio. We also have extended a mezzanine loan to this portfolio. Refer to "—Debt Investments" below.

- *Trilogy*. Portfolio of predominantly SNFs located in the Midwest and operated pursuant to management agreements with Trilogy Health Services, as well as ancillary services businesses, including a therapy business and a pharmacy business. Griffin-American Healthcare REIT III, Inc., or GAHR3, Griffin-American Healthcare REIT IV, Inc., or GAHR4, and management of Trilogy own the remaining 76.8% of this portfolio.

- *Solstice.* Operator platform joint venture established to manage the operations of the Winterfell portfolio. An affiliate of ISL owns the remaining 80.0%.

Debt Investments

Our investments in real estate debt secured by healthcare facilities consisted of one mezzanine loan. Our mezzanine loan relates to the Espresso portfolio, in which we also have an equity investment. Refer to "—Unconsolidated Investments" above. The following table presents a summary of our debt investment as of June 30, 2021 (dollars in thousands):

Investment Type:	Count	Principal Amount	Carrying Value[(2)]	Effective Interest Rate[(3)]	Final Maturity Date
Espresso Mezzanine loan[(1)]	1	$ 27,745	$ 20,053	14.0 %	Jan 2022

(1) Property type underlying the mezzanine loan are predominately SNFs located primarily in the Midwest, Northeast and Southeast regions of the United States.
(2) As a result of impairments and other non-cash reserves recorded by the joint venture, the carrying value of our Espresso unconsolidated investment was reduced to zero in the fourth quarter of 2018. We have recorded the excess equity in losses related to our unconsolidated investment as a reduction to the carrying value of our mezzanine loan, which was originated to a subsidiary of the Espresso joint venture. As of June 30, 2021, the cumulative excess equity in losses included in our mezzanine loan carrying value was $7.4 million.
(3) Reflects the effective interest rate as of June 30, 2021, which is a fixed rate of 14%.

As of June 30, 2021, our debt investment was performing in accordance with the contractual terms of its governing documents. Refer to "—Recent Developments" for further detail.

Our Strategy

Our primary objective is to invest in our portfolio and manage liquidity in order to maximize shareholder value. Although our short-term strategy will be impacted by the effects of the COVID-19 pandemic, the key elements of our long-term strategy include:

- *Grow the Operating Income Generated by Our Portfolio.* Through active portfolio management, we will continue to review and implement operating strategies and initiatives in order to enhance the performance of our existing investment portfolio.

- *Pursue Strategic Capital Expenditures and Development Opportunities.* We will continue to invest capital into our operating portfolio in order to maintain market position as well as functional and operating standards. In addition, we will continue to execute on and identify strategic development opportunities for our existing investments that may involve replacing, converting or renovating facilities in our portfolio which, in turn, would allow us to provide an optimal mix of services and enhance the overall value of our assets.

- *Consider Selective Dispositions and Opportunities for Asset Repositioning.* We will consider dispositions of assets and portfolios where we believe the disposition will achieve a desired return and improve our liquidity position. Additionally, we will continue to assess the need for strategic repositioning or sale of assets, joint ventures, operators and markets to position our portfolio for optimal performance.

- *Financing Strategy.* We use asset-level financing as part of our investment strategy to leverage our investments while managing refinancing and interest rate risk. We typically finance our investments with medium to long-term, non-recourse mortgage loans, though our borrowing levels and terms vary depending upon the nature of the assets and the related financing. In addition, our Sponsor has made available a revolving line of credit to provide additional short-term liquidity as needed. Refer to "Liquidity and Capital Resources" in Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information.

Portfolio Management

Our Advisor and its affiliates maintain a comprehensive portfolio management process that generally includes oversight by asset management and capital markets teams, regular management meetings and operating results review process. These processes are designed to enable management to evaluate and proactively identify asset-specific issues and trends on a portfolio-wide, sub-portfolio or asset type basis. Nevertheless, we cannot be certain that our Advisor's review will identify all issues within our portfolio due to, among other things, adverse economic conditions or events adversely affecting specific assets; therefore, potential future losses may also stem from issues that are not identified during these portfolio reviews or the asset and portfolio management process.

Our Advisor's asset management and capital markets teams are experienced and use many methods to actively manage our asset base to enhance or preserve our income, value and capital and mitigate risk. Our Advisor's asset management and capital markets teams seek to identify strategic development opportunities for our investments that may involve replacing, converting or renovating facilities in our portfolio which, in turn, would allow us to provide optimal mix of services and enhance the overall value of our assets. To manage risk, our Advisor's asset management and capital markets teams engage in frequent review and dialogue with operators/managers/borrowers/third party advisors and periodic inspections of our owned properties and collateral. During the COVID-19 pandemic, we have performed virtual site tours of our properties in order to comply with safety measures and restrictions and anticipate resuming in person inspections when conditions allow. In addition, our Advisor's asset management and capital market teams consider the impact of regulatory changes on the performance of our portfolio.

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

Outlook and Recent Trends

COVID-19

The healthcare industry, which includes ILFs, ALFs, MCFs, CCRCs, SNFs, MOBs and hospitals, has been, and will continue to be, significantly and adversely impacted by the effects of COVID-19, while continuing to operate during the pandemic and care for those most susceptible to COVID-19. Operating results have been, and will continue to be, impacted to the extent occupancy declines continue and additional staffing and cost burdens persist. This may result in sustained industry declines in resident occupancy and operating cash flows, compressed operating margins and a stressed market affecting healthcare real estate values in general.

The industry experienced an acceleration in the pace of move-ins during the second quarter of 2021, as a result of an increase in resident demand, improving consumer sentiment and easing restrictions on visitation and admissions. However, annual inventory growth remained at 2.8% in both the first and second quarters of 2021, with an elevated construction versus inventory ratio of 5.0% in the second quarter of 2021. During the second quarter of 2021, the seniors housing industry occupancy average of 78.7% remained unchanged from the first quarter of 2021 (source: The National Investment Centers for Seniors Housing & Care, or NIC).

The healthcare industry's operational and financial recovery from the impact of the COVID-19 will depend on a variety of factors, which may differ considerably across regions, fluctuate over time and are highly uncertain. Recent guidance from state and local governments, including the easing of restrictions, the resumption of normal business operations in many municipalities, and lower reported infection rates are encouraging signs towards a recovery from the effects of the pandemic. Significant vaccine deployment and acceptance has begun to mitigate the number of confirmed COVID-19 cases, which in turn has helped to reduce preventative operating costs that continue to be incurred. However, new strains and variants of the virus have caused a resurgence and an increase in reported infection rates, which may impact the general economic recovery. Occupancy challenges are still anticipated until such time that the rate of resident move-outs is outpaced by new resident admissions, for which the future trend remains uncertain. Federal and state government plans may shift through the coming months as guidelines are very specific and may be unpredictable.

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act, was signed into law. The CARES Act provides $100 billion in grants to eligible health care providers for health care related expenses or lost revenues that are attributable to COVID-19. Beginning September 2020, licensed assisted living providers became eligible to apply for funding under the Provider Relief Fund Phase 2 General Distribution allocation and remain eligible under the Provider Relief Fund Phase 3 General Distribution. The American Senior Housing Association, or ASHA, continues to advocate for an additional $3-5 billion from the Provider Relief Fund to be allocated to the seniors housing industry, however the announcement of a Phase 4 General Distribution remains uncertain.

In April 2020, the Centers for Medicare and Medicaid Services, or CMS, announced the distribution of $30 billion in funds to Medicare providers based upon their 2019 Medicare fee for service revenues. In addition, the DHHS authorized $20 billion of additional funding for providers. While these funds most significantly impact SNF operators, Congress continues to consider further legislative action in response to the COVID-19 pandemic.

Operators continue to evaluate their options for financial assistance, such as utilizing programs within the CARES Act as well as other state and local government relief programs. However, the ultimate impact of such relief, including the extent to which relief funds from such programs will provide meaningful support for lost revenue and increasing costs, is uncertain.

Healthcare Real Estate

The healthcare industry is one of the largest segments of the U.S. economy (approximately 18% of the gross domestic product, or GDP). Total U.S. healthcare expenditure in the sector is about $4 trillion, with hospital care, physician services and prescription drugs accounting for 60% of that total. One of the most prevalent trends that will impact the healthcare industry over the next 20+ years is the aging of the U.S. population, primarily as baby boomers (born between 1946-64) reach 75 years of age and older. According to the U.S. Census Bureau, from 2018 through 2060, seniors aged 75 and older are projected to more than double in size, reaching just over 50 million people (+130% increase from 2018). Additionally, with an increase in the elderly population, healthcare expenditure will continue to outgrow the broader U.S. economy, which continues to push up its share of total U.S. GDP. Healthcare spending in the United States is projected to grow at an average rate of 5.5% over the next 10 years and increase from $3.6 trillion in 2018 to $6.0 trillion in 2027 (source: CMS). As healthcare costs increase, insurers, individuals and the U.S. government are pursuing lower cost options for healthcare. Seniors housing facilities and SNFs are generally more cost effective than higher acuity healthcare settings, such as short or long-term acute-care hospitals, in-patient rehabilitation facilities and other post-acute care settings.

Seniors Housing

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

Supply growth, which has outpaced demand, has challenged the seniors housing industry over the past several years. New inventory, coupled with the average move-in age of seniors housing residents increasing over time, has resulted in declining occupancy for the industry on average. Further, to remain competitive with the new supply, owners and operators of older facilities have increased capital expenditure spending, which in turn has negatively affected cash flow. While off its peak of 7.7% in the fourth quarter of 2017, seniors housing under construction as a share of inventory was 5.0% in the second quarter of 2021 (source: NIC). It is expected that development starts will be limited in the short-term future, in part due to the disruption caused by the COVID-19 pandemic, however, as demographics and demand continues to increase long-term, supply growth will follow.

As a result of increased supply, the seniors housing industry has experienced competitive pressures that have limited rent growth over the past several years. Average market rent growth reached its peak of 4.2% in 2016 and has since decreased to 1.2% as of the second quarter of 2021, with pressures caused by the COVID-19 pandemic contributing to the decline (source: NIC). Limited future supply growth and reestablishing normal operations in a post-pandemic environment will be factors in achieving near and long term revenue growth for the industry.

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

Skilled Nursing

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

SNF operators receive a majority of their revenues from governmental payors, primarily Medicare and Medicaid. With a dependence on government reimbursement as the primary source of their revenues, SNF operators are also subject to intensified efforts to impose pricing pressures and more stringent cost controls, through value-based payments, managed care and similar programs, which could result in lower daily reimbursement rates, lower lease coverage, decreased occupancy and declining operating margins, liquidity and financial conditions.

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

- Impairments, including operating real estate and goodwill.

Our investments are reviewed on a quarterly basis, or more frequently as necessary, to assess whether there are any indicators that the value of our investments may be impaired or that carrying value may not be recoverable. In conducting these reviews, we consider macroeconomic factors, including healthcare sector conditions, together with asset and market specific circumstance, among other factors. To the extent an impairment has occurred, the loss will be measured as compared to the carrying amount of the investment. Fair values are estimated based upon the income capitalization approach, using net operating income for each property and applying indicative capitalization and discount rates.

We perform an annual impairment test for goodwill and evaluate the recoverability whenever events or changes in circumstances indicate that the carrying value of goodwill may not be fully recoverable. In making such assessment, qualitative factors are used to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If the estimated fair value of the reporting unit is less than its carrying value, then an impairment charge is recorded.

Impairment

During the six months ended June 30, 2021, we recorded impairment losses totaling $0.8 million for our Smyrna net lease property, as a result of a lower estimated market value.

As of December 31, 2020, we had accumulated impairment losses of $187.8 million for operating real estate that we continue to hold as of June 30, 2021. Refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 for additional information regarding impairment recorded in prior years.

During the six months ended June 30, 2021, 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 during the six months ended June 30, 2021.

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

Results of Operations

Impact of COVID-19

Efforts to address the COVID-19 pandemic continue to significantly impact economic and financial markets globally and across all facets of industries, including real estate. Specifically, our healthcare real estate business and investments have experienced a myriad of challenges, including, but not limited to, limited admissions at facilities, resulting in declines in resident occupancy and operating cash flows, increases in cost burdens faced by operators, lease concessions sought by tenants, and a stressed market affecting real estate values in general.

We anticipate these significant effects to continue in future periods, which could have a prolonged negative impact on our financial condition, results of operations and estimated net asset value. We continue to monitor the progression of the economic recovery from COVID-19 and its effects on our results of operations and assess recoverability of value across our assets as conditions change.

Comparison of the Three Months Ended June 30, 2021 to June 30, 2020 (dollars in thousands):

	Three Months Ended June 30,		Increase (Decrease)	
	2021	2020	Amount	%
Property and other revenues				
Resident fee income	$ 28,254	$ 30,698	$ (2,444)	(8.0)%
Rental income	35,612	39,215	(3,603)	(9.2)%
Other revenue	41	79	(38)	(48.1)%
Total property and other revenues	63,907	69,992	(6,085)	(8.7)%
Interest income				
Interest income on debt investments	1,387	1,906	(519)	(27.2)%
Expenses				
Real estate properties - operating expenses	45,101	46,012	(911)	(2.0)%
Interest expense	15,962	16,453	(491)	(3.0)%
Transaction costs	—	—	—	NA
Asset management fees-related party	2,769	4,431	(1,662)	(37.5)%
General and administrative expenses	3,079	2,288	791	34.6 %
Depreciation and amortization	15,557	16,495	(938)	(5.7)%
Impairment loss	—	91,437	(91,437)	(100.0)%
Total expenses	82,468	177,116	(94,648)	(53.4)%
Other income, net	(468)	—	(468)	NA
Realized gain (loss) on investments and other	(111)	—	(111)	NA
Equity in earnings (losses) of unconsolidated ventures	10,766	(34,763)	45,529	(131.0)%
Income tax expense	(11)	(14)	3	(21.4)%
Net income (loss)	$ (6,998)	$ (139,995)	$ 132,997	(95.0)%

Resident Fee Income

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

	Three Months Ended June 30,		Increase (Decrease)	
	2021	2020	Amount	%
Same store ALF/MCF/CCRC properties (excludes properties sold)	$ 27,223	$ 28,254	$ (1,031)	(3.6)%
Properties sold	1,031	2,444	(1,413)	(57.8)%
Total resident fee income	$ 28,254	$ 30,698	$ (2,444)	(8)%

On a same store basis, resident fee income decreased by $1.0 million primarily as a result of lower occupancy at our ALFs, MCFs and CCRCs during the three months ended June 30, 2021. Limited move-ins and elevated move-outs throughout the COVID-19 pandemic resulted in lower occupancy across our direct operating investments.

Rental Income

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

	Three Months Ended June 30,		Increase (Decrease)	
	2021	2020	Amount	%
Same store ILF properties (excludes properties sold)	$ 29,905	$ 30,990	$ (1,085)	(3.5)%
Same store net lease properties (excludes properties sold)				
Rent payments	5,153	8,284	(3,131)	(37.8)%
Straight-line rent income (loss)	554	(59)	613	(1,039.0)%
Total rental income	$ 35,612	$ 39,215	$ (3,603)	(9.2)%

Rental income decreased $3.6 million primarily due to the operator of our Arbors net lease portfolio not remitting full contractual rent during the three months ended June 30, 2021, as well as lower contractual rent recognized under the amended terms of the lease with the operator of our Fountains net lease portfolio. Declines in occupancy at our ILFs further contributed to the decrease in rental income. Limited move-ins and elevated move-outs throughout the COVID-19 pandemic resulted in lower occupancy across our ILFs.

Other Revenue

Other revenue decreased primarily as a result of lower interest earned on uninvested cash during the three months ended June 30, 2021.

Interest Income on Debt Investments

During the three months ended June 30, 2021, interest income generated by our one mezzanine loan debt investment decreased as a result of receiving principal repayments. The borrower funded these principal repayments through net proceeds generated from the sale of underlying collateral and available operating cash flow.

Real Estate Properties - Operating Expenses

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

	Three Months Ended June 30,		Increase (Decrease)	
	2021	2020	Amount	%
Same store (excludes properties sold and COVID-19 related expenses)				
ALF/MCF/CCRC properties	$ 20,992	$ 19,647	$ 1,345	6.8 %
ILF properties	21,961	20,128	1,833	9.1 %
COVID-19 related expenses	957	2,979	(2,022)	(67.9)%
Properties sold	1,191	3,258	(2,067)	(63.4)
Total real estate properties - operating expenses	$ 45,101	$ 46,012	$ (911)	(2.0)%

Overall, total operating expenses decreased $0.9 million primarily due to the sale of a property within the Aqua portfolio in the first quarter of 2021, as well as declines in COVID-19 related expenses. COVID-19 related expenses include personal protective equipment for residents and staff, as well as wages for increased staffing.

Excluding properties sold and COVID-19 related expenses, operating expenses increased $3.2 million primarily as a result of our operators resuming deferred repairs and maintenance projects, filling open staff positions and increasing marketing and sales efforts.

Interest Expense

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

	Three Months Ended June 30,		Increase (Decrease)	
	2021	2020	Amount	%
Same store (excludes properties sold)				
ALF/MCF/CCRC properties	$ 4,468	$ 4,537	$ (69)	(1.5)%
ILF properties	8,285	8,485	(200)	(2.4)%
Net lease properties	2,890	2,949	(59)	(2.0)%
Properties sold	—	187	(187)	(100.0)%
Corporate	319	295	24	8.1 %
Total interest expense	$ 15,962	$ 16,453	$ (491)	(3.0)%

Interest expense decreased $0.5 million as a result of lower average mortgage notes principal balances outstanding during the three months ended June 30, 2021 due to continued principal amortization and loan payoffs, in addition to lower London Interbank Offered Rate, or LIBOR, which has reduced interest expense on our floating rate debt. Corporate interest expense represents interest resulting from the borrowings under our Sponsor Line.

Asset Management Fees - Related Party

Our Advisor receives a monthly asset management fee equal to one-twelfth of 1.5% of our most recently published aggregate estimated net asset value. Asset management fees - related party decreased $1.7 million as a result of the declining estimated net asset value year over year.

General and Administrative Expenses

General and administrative expenses increased $0.8 million primarily as a result of higher direct corporate expenses including legal and other professional fees.

Depreciation and Amortization

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

	Three Months Ended June 30,		Increase (Decrease)	
	2021	2020	Amount	%
Same store (excludes properties sold)				
ALF/MCF/CCRC properties	$ 4,261	$ 4,675	$ (414)	(8.9)%
ILF properties	7,290	7,813	(523)	(6.7)%
Net lease properties	3,998	3,665	333	9.1 %
Properties sold	8	342	(334)	(97.7)%
Total depreciation and amortization	$ 15,557	$ 16,495	$ (938)	(5.7)%

Depreciation and amortization expense decreased $0.9 million primarily as a result of impairments recognized during the year ended December 31, 2020, which reduced building depreciation expense.

Impairment Loss

During the three months ended June 30, 2021, we did not incur any impairment losses on operating real estate assets.

During the three months ended June 30, 2020, an impairment loss of $91.4 million was recorded, consisting of $70.8 million recognized for eight independent living facilities within the Winterfell portfolio and $20.6 million for properties that were sold in 2021.

Other Income, Net

During the three months ended June 30, 2021 we recognized a $0.5 million non-operating loss at a property within the Watermark Fountains portfolio.

Realized Gain (Loss) on Investments and Other

During the three months ended June 30, 2021, we realized losses totaling $0.1 million on the sales of the Smyrna property, which were partially offset by a gain on the sale of the Kansas City portfolio. During the three months ended June 30, 2020, we did not realize any gains or losses.

Equity in Earnings (Losses) of Unconsolidated Ventures

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

	Three Months Ended June 30,								Three Months Ended June 30,	
	2021	2020	2021	2020	2021	2020			2021	2020
Portfolio	Equity in Earnings (Losses)		FFO and MFFO adjustments[1]		Equity in Earnings, less FFO and MFFO adjustments		Increase (Decrease)		Cash Distributions	
Eclipse	$ 4,073	$ (3,293)	$ 3,931	$ (3,410)	$ 142	$ 117	$ 25	21.4 %	$ —	$ —
Envoy	740	—	744	—	(4)	—	(4)	— %	739	—
Diversified US/UK	641	(35,999)	(2,993)	(37,573)	3,634	1,574	2,060	130.9 %	1,431	—
Espresso	5,686	(365)	3,399	(2,752)	2,287	2,387	(100)	(4.2)%	—	—
Trilogy	(325)	4,928	(3,575)	(3,625)	3,250	8,553	(5,303)	(62.0)%	—	—
Subtotal	$ 10,815	$ (34,729)	$ 1,506	$ (47,360)	$ 9,309	$ 12,631	$ (3,322)	(26.3)%	$ 2,170	$ —
Operator Platform[2]	(49)	(34)	(1)	—	(48)	(34)	(14)	41.2 %	—	—
Total	$ 10,766	$ (34,763)	$ 1,505	$ (47,360)	$ 9,261	$ 12,597	$ (3,336)	(26.5)%	$ 2,170	$ —

(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) Represents our investment in Solstice.

Our equity in earnings generated by our unconsolidated ventures increased $45.5 million primarily due to real estate impairments recorded by the Diversified US/UK and Eclipse joint ventures in three months ended June 30, 2020 as well as recognized gains on assets sold in the Eclipse and Espresso portfolios during the three months ended June 30, 2021. The increase was partially offset by lower COVID-19 provider relief funds received and recognized by the Trilogy joint venture during the three months ended June 30, 2021.

Equity in earnings, less FFO and MFFO adjustments, decreased by $3.3 million. The decrease was primarily due to lower COVID-19 provider relief funds received and recognized by the Trilogy joint venture during the three months ended June 30, 2021.

Income Tax Expense

Income tax expense for the three months ended June 30, 2021 was $11,000 and related to our operating properties, which operate through a taxable REIT subsidiary structure. Income tax expense for the three months ended June 30, 2020 was $14,000.

Comparison of the Six Months Ended June 30, 2021 to June 30, 2020 (dollars in thousands):

	Six Months Ended June 30,		Increase (Decrease)	
	2021	2020	Amount	%
Property and other revenues				
Resident fee income	$ 56,536	$ 63,545	$ (7,009)	(11.0)%
Rental income	64,663	79,195	(14,532)	(18.3)%
Other revenue	42	143	(101)	(70.6)%
Total property and other revenues	121,241	142,883	(21,642)	(15.1)%
Interest income				
Interest income on debt investments	3,600	3,811	(211)	(5.5)%
Expenses				
Real estate properties - operating expenses	90,719	91,713	(994)	(1.1)%
Interest expense	31,987	33,132	(1,145)	(3.5)%
Transaction costs	54	7	47	671.4 %
Asset management fees-related party	5,538	8,862	(3,324)	(37.5)%
General and administrative expenses	6,112	5,317	795	15.0 %
Depreciation and amortization	30,944	32,984	(2,040)	(6.2)%
Impairment loss	786	91,437	(90,651)	(99.1)%
Total expenses	166,140	263,452	(97,312)	(36.9)%
Other income, net	6,892	—	6,892	NA
Realized gain (loss) on investments and other	7,404	—	7,404	NA
Equity in earnings (losses) of unconsolidated ventures	9,876	(35,756)	45,632	(127.6)%
Income tax expense	(26)	(28)	2	(7.1)%
Net income (loss)	$ (17,153)	$ (152,542)	$ 135,389	(88.8)%

Resident Fee Income

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

	Six Months Ended June 30,		Increase (Decrease)	
	2021	2020	Amount	%
Same store ALF/MCF/CCRC properties (excludes properties sold)	$ 53,311	$ 58,287	$ (4,976)	(8.5)%
Properties sold	3,225	5,258	(2,033)	(38.7)%
Total resident fee income	$ 56,536	$ 63,545	$ (7,009)	(11)%

On a same store basis, resident fee income decreased $5.0 million primarily as a result of lower occupancy at our ALFs, MCFs and CCRCs during the six months ended June 30, 2021. Limited move-ins and elevated move-outs throughout the COVID-19 pandemic resulted in lower occupancy across our direct operating investments.

Rental Income

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

	Six Months Ended June 30,		Increase (Decrease)	
	2021	2020	Amount	%
Same store ILF properties (excludes properties sold)	$ 59,732	$ 62,747	$ (3,015)	(4.8)%
Same store net lease properties (excludes properties sold)				
Rent payments	12,016	16,518	(4,502)	(27.3)%
Straight-line rent income (loss)	(7,085)	(70)	(7,015)	10,021.4 %
Total rental income	$ 64,663	$ 79,195	$ (14,532)	(18.3)%

Rental income decreased $14.5 million primarily due to the operator of our Arbors net lease portfolio not remitting full contractual rent during the six months ended June 30, 2021, which also resulted in the write-off of straight-line rent receivables. Additionally, lower contractual rent recognized under the amended terms of the lease with the operator of our Fountains net lease portfolio. Limited move-ins and elevated move-outs throughout the COVID-19 pandemic resulted in lower occupancy across our ILFs.

Other Revenue

Other revenue decreased primarily as a result of lower interest earned on uninvested cash during the six months ended June 30, 2021.

Interest Income on Debt Investments

During the six months ended June 30, 2021, interest income generated by our one mezzanine loan debt investment decreased as a result of receiving principal repayments. The borrower funded these principal repayments through net proceeds generated from the sale of underlying collateral and available operating cash flow.

Real Estate Properties - Operating Expenses

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

	Six Months Ended June 30,		Increase (Decrease)	
	2021	**2020**	**Amount**	**%**
Same store (excludes properties sold and COVID-19 related expenses)				
ALF/MCF/CCRC properties	$ 40,826	$ 41,011	$ (185)	(0.5)%
ILF properties	43,236	41,376	1,860	4.5 %
Net lease properties	25	13	12	92.3 %
COVID-19 related expenses	2,604	3,378	(774)	(22.9)%
Properties sold	4,028	5,935	(1,907)	(32.1)
Total real estate properties - operating expenses	$ 90,719	$ 91,713	$ (994)	(1.1)%

Overall, total operating expenses decreased $1.0 million primarily due to the sale of a property within the Aqua portfolio in the first quarter of 2021, as well as declines in COVID-19 related expenses. COVID-19 related expenses include personal protective equipment for residents and staff, as well as wages for increased staffing.

Excluding properties sold and COVID-19 related expenses, operating expenses increased $1.7 million, primarily as a result of our operators resuming deferred repairs and maintenance projects that were previously suspended under COVID-19 restrictions.

Interest Expense

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

	Six Months Ended June 30,		Increase (Decrease)	
	2021	**2020**	**Amount**	**%**
Same store (excludes properties sold)				
ALF/MCF/CCRC properties	$ 8,897	$ 9,259	$ (362)	(3.9)%
ILF properties	16,531	17,227	(696)	(4.0)%
Net lease properties	5,763	5,913	(150)	(2.5)%
Properties sold	160	438	(278)	(63.5)%
Corporate	636	295	341	115.6 %
Total interest expense	$ 31,987	$ 33,132	$ (1,145)	(3.5)%

Interest expense decreased $1.1 million as a result of lower average mortgage notes principal balances outstanding during the six months ended June 30, 2021 due to continued principal amortization and loan payoffs, in addition to lower London Interbank Offered Rate, or LIBOR, which has reduced interest expense on our floating rate debt. Corporate interest expense represents interest resulting from the borrowings under our Sponsor Line.

Transaction Costs

Transaction costs for the six months ended June 30, 2021 were primarily legal fees incurred to execute a maturity date extension for a note payable for a property within the Aqua portfolio. Transaction costs for the six months ended June 30, 2020 were de minimis.

Asset Management Fees - Related Party

Our Advisor receives a monthly asset management fee equal to one-twelfth of 1.5% of our most recently published aggregate estimated net asset value. Asset management fees - related party decreased $3.3 million as a result of the declining estimated net asset value year over year.

General and Administrative Expenses

General and administrative expenses increased $0.8 million primarily as a result of higher direct corporate expenses incurred, including legal and other professional fees.

Depreciation and Amortization

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

	Six Months Ended June 30,		Increase (Decrease)	
	2021	**2020**	**Amount**	**%**
Same store (excludes properties sold)				
ALF/MCF/CCRC properties	$ 8,488	$ 9,309	$ (821)	(8.8)%
ILF properties	14,536	15,590	(1,054)	(6.8)%
Net lease properties	7,830	7,401	429	5.8 %
Properties sold	90	684	(594)	(86.8)%
Total depreciation and amortization	$ 30,944	$ 32,984	$ (2,040)	(6.2)%

Depreciation and amortization expense decreased $2.0 million, primarily as a result of impairments recognized during the six months ended June 30, 2020, which reduced building depreciation expense.

Impairment Loss

During the six months ended June 30, 2021, impairment losses on operating real estate and held for sale assets totaled $0.8 million for our Smyrna net lease property as a result of lower estimated future cash flows and market value.

During the six months ended June 30, 2020, an impairment loss of $91.4 million was recorded, consisting of $70.8 million recognized for eight independent living facilities within the Winterfell portfolio and $20.6 million for properties that were sold in 2021.

Other Income, Net

Other income, net for the six months ended June 30, 2021 consisted of $7.4 million in federal COVID-19 provider relief grants from DHHS, partially offset by a $0.5 million non-operating loss recognized at a property within the Watermark Fountains portfolio. There was no other income recognized during the six months ended June 30, 2020.

Realized Gain (Loss) on Investments and Other

The sale of four properties during the six months ended June 30, 2021 resulted in net realized gains totaling $7.4 million. During the six months ended June 30, 2020, we did not realize any gains or losses.

Equity in Earnings (Losses) of Unconsolidated Ventures

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

	Six Months Ended June 30,								Six Months Ended June 30,	
	2021	2020	2021	2020	2021	2020			2021	2020
Portfolio	Equity in Earnings (Losses)		FFO and MFFO adjustments[(1)]		Equity in Earnings, less FFO and MFFO adjustments		Increase (Decrease)		Cash Distributions	
Eclipse	$ 3,933	$ (3,492)	$ 3,592	$ (3,918)	$ 341	$ 426	$ (85)	(20.0)%	$ —	$ 86
Envoy	740	—	744	—	(4)	—	(4)	— %	739	192
Diversified US/UK	(2,057)	(38,090)	(9,989)	(42,456)	7,932	4,366	3,566	81.7 %	2,290	1,487
Espresso	10,943	(582)	5,717	(5,442)	5,226	4,860	366	7.5 %	—	—
Trilogy	(3,602)	6,456	(7,602)	(7,352)	4,000	13,808	(9,808)	(71.0)%	—	—
Subtotal	$ 9,957	$ (35,708)	$ (7,538)	$ (59,168)	$ 17,495	$ 23,460	$ (5,965)	(25.4)%	$ 3,029	$ 1,765
Operator Platform[(2)]	(81)	(48)	(1)	—	(80)	(48)	(32)	66.7 %	—	—
Total	$ 9,876	$ (35,756)	$ (7,539)	$ (59,168)	$ 17,415	$ 23,412	$ (5,997)	(25.6)%	$ 3,029	$ 1,765

(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) Represents our investment in Solstice.

Our equity in earnings generated by our unconsolidated ventures increased $45.6 million primarily due to real estate impairments recorded by the Diversified US/UK and Eclipse joint ventures during the six months ended June 30, 2020 as well as realized gains on assets sold in the Eclipse and Espresso portfolios during the six months ended June 30, 2021. The increase was partially offset by lower COVID-19 provider relief grants and lower occupancy in the Trilogy joint venture during the six months ended June 30, 2021.

Equity in earnings, less FFO and MFFO adjustments, decreased by $6.0 million. The decrease was primarily due to the impact the COVID-19 pandemic has had on the performance of the Trilogy joint venture, partially offset by lower deferred tax expense recognized in the Diversified US/UK portfolio.

Income Tax Expense

Income tax expense for the six months ended June 30, 2021 and 2020 was $26,000 and relates to our operating properties, which operate through a taxable REIT subsidiary structure.

Non-GAAP Financial Measures

Funds from Operations and Modified Funds from Operations

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

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

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

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

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

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

- acquisition fees and expenses;
- non-cash amounts related to straight-line rent and the amortization of above or below market and in-place intangible lease assets and liabilities (which are adjusted in order to reflect such payments from an accrual basis of accounting under U.S. GAAP to a cash basis of accounting);
- amortization of a premium and accretion of a discount on debt investments;
- non-recurring impairment of real estate-related investments that meet the specified criteria identified in the rules and regulations of the SEC;
- realized gains (losses) from the early extinguishment of debt;
- realized gains (losses) on the extinguishment or sales of hedges, foreign exchange, securities and other derivative holdings except where the trading of such instruments is a fundamental attribute of our business;
- unrealized gains (losses) from fair value adjustments on real estate securities, including CMBS and other securities, interest rate swaps and other derivatives not deemed hedges and foreign exchange holdings;
- unrealized gains (losses) from the consolidation from, or deconsolidation to, equity accounting;
- adjustments related to contingent purchase price obligations; and
- adjustments for consolidated and unconsolidated partnerships and joint ventures calculated to reflect MFFO on the same basis as above.

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

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

We believe that MFFO is a useful non-GAAP measure for non-traded REITs. It is helpful to management and stockholders in assessing our future operating performance once our organization and offering, and acquisition and development stages are complete. However, MFFO may not be a useful measure of our operating performance or as a comparable measure to other typical non-traded REITs if we do not continue to operate in a similar manner to other non-traded REITs, including if we were to extend our acquisition and development stage or if we determined not to pursue an exit strategy.

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

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

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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Funds from operations:				
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (6,863)	$ (139,281)	$ (17,326)	$ (151,762)
Adjustments:				
Depreciation and amortization	15,557	16,495	30,944	32,984
Depreciation and amortization related to non-controlling interests	(144)	(163)	(289)	(324)
Depreciation and amortization related to unconsolidated ventures	7,592	8,119	15,400	16,306
Realized (gain) loss from sales of property	111	—	(7,417)	—
Realized gain (loss) from sales of property related to non-controlling interests	—	—	226	—
Realized (gain) loss from sales of property related to unconsolidated ventures	(10,645)	—	(17,167)	—
Impairment losses of depreciable real estate	—	91,437	786	91,437
Impairment loss on real estate related to non-controlling interests	—	(597)	—	(597)
Impairment losses of depreciable real estate held by unconsolidated ventures	(327)	37,017	(327)	37,379
Funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	$ 5,281	$ 13,027	$ 4,830	$ 25,423
Modified funds from operations:				
Funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	$ 5,281	$ 13,027	$ 4,830	$ 25,423
Adjustments:				
Transaction costs	—	—	54	7
Straight-line rental (income) loss	(554)	59	7,085	70
Amortization of premiums, discounts and fees on investments and borrowings	1,151	1,238	2,303	2,476
Realized (gain) loss on investments and other	—	—	13	—
Adjustments related to unconsolidated ventures[(1)]	1,875	2,224	9,633	5,483
Adjustments related to non-controlling interests	(26)	(12)	(40)	(24)
Modified funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	$ 7,727	$ 16,536	$ 23,878	$ 33,435

(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) principal and interest payments on our borrowings and other commitments; (ii) operating expenses; and (iii) capital expenditures, development and redevelopment activities, 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) cash flow generated by our investments, both from our operating activities and distributions from our unconsolidated joint ventures; (iii) secured or unsecured financings from banks and other lenders, including investment-level financing and/or a corporate credit facility; and (iv) proceeds from full or partial realization of investments.

Our investments generate cash flow in the form of rental revenues, resident fees and interest income, which are reduced by operating expenditures, debt service payments, capital expenditures and corporate general and administrative expenses.

Prior to the COVID-19 pandemic, our business had been impacted by limited growth in revenues due to stagnant occupancy and rate pressures as well as rising labor and benefits costs, resulting in compressed operating margins. The effects of the COVID-19 pandemic have further amplified the aforementioned issues. The recovery from the impact of the COVID-19 pandemic on our operational and financial performance will depend on a variety of factors, which may differ considerably across regions and fluctuate over time. Recent guidance from state and local governments, including the easing of restrictions, the resumption of normal business operations in many municipalities, and lower reported infection rates are encouraging signs towards a recovery from the effects of the pandemic. Significant vaccine deployment and acceptance has begun to mitigate the number of confirmed COVID-19 cases, which in turn has helped to reduce preventative operating costs that continue to be incurred. However, new strains and variants of the virus have caused a resurgence and an increase in reported infection rates, which may impact the general economic recovery. Occupancy challenges are still anticipated until such time that the rate of resident move-outs is outpaced by new resident admissions, for which the future trend remains uncertain.

We currently believe that our capital resources are sufficient to meet our capital needs for the following 12 months. As of August 12, 2021, we had approximately $100.4 million of unrestricted cash. For additional information regarding our liquidity needs and capital resources, see below.

Cash From Operations

We primarily generate cash flow from operations through net operating income from our operating properties, rental income from our net lease properties and interest from our debt investment, as well as distributions from our investments in unconsolidated ventures. Net cash used in operating activities was $2.8 million for the six months ended June 30, 2021. During the six months ended June 30, 2021, debt service payments on our borrowings exceeded our cash flow from operations. We have utilized proceeds from asset sales and repayments on our mezzanine loan to fund debt service payments, which is expected to continue until occupancy and revenues of our direct investments improve from current levels.

A substantial majority of our properties, or 77.1% of our operating real estate, excluding our unconsolidated ventures and properties designated held for sale, are operating properties whereby we are directly exposed to various operational risks. During the six months ended June 30, 2021, our cash flow from operations continued to be negatively impacted by, among other things, suboptimal occupancy levels, rate pressures, increased labor and benefits costs, as well as rising real estate taxes. Occupancy, which is the primary driver of revenues at our properties, has declined, and may continue to decline, as the effects of COVID-19 have resulted in limited admissions, tours, inquiries and ultimately move-ins, while the pandemic also has increased the risk of resident illness and move-outs. At the same time, operating costs have increased to obtain adequate staffing and personal protective equipment. 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. As of August 12, 2021, our direct operating investments have not experienced any significant issues collecting rents or other fees from residents as a result of COVID-19.

For our net lease investments, our operators have been impacted by the same COVID-19 factors discussed above, which has and will continue to affect our operators' ability and willingness to pay rent. Numerous state, local, federal and industry-initiated efforts have also affected or may affect landlords and their ability to collect rent and/or enforce remedies for the failure to pay rent. As of August 12, 2021, rent collection details for our net lease investments are as follows:

- The operator of our Smyrna net lease property failed to remit rental payments in 2021. The property was sold in May 2021.
- The operator of our Arbors portfolio has failed to remit rent and satisfy other lease conditions. Full contractual monthly rent obligations have been remitted through March 2021.
- Despite the adverse effect of COVID-19 on its operations, the operator of our Fountains net lease portfolio has remitted full contractual monthly rent. Effective April 15, 2021, we executed a lease modification with the operator of our Fountains net lease portfolio. The modification allows the operator to defer up to $3.0 million of contractual rent payments over the remaining term of the lease, which will be forgiven at the expiration or earlier termination of the lease, subject to the satisfaction and compliance with certain terms and conditions.

The performance of our operators has been significantly and adversely affected by COVID-19. Our operators have applied for and benefited from federal relief assistance, however, their ability to pay rent in the future is currently unknown.

In addition, we have significant joint ventures and may not be able to control the timing of distributions, if any, from these investments. As of June 30, 2021, our unconsolidated joint ventures and consolidated joint ventures represented 34.4% and 20.5%, respectively, of our total real estate equity investments, based on cost. Our joint ventures, which have been similarly impacted by COVID-19 as our direct investments, are likely to continue to limit distributions to preserve liquidity.

Borrowings

We use asset-level financing as part of our investment strategy and are required to make recurring principal and interest payments on our borrowings. As of June 30, 2021, we had $1.4 billion of consolidated asset-level borrowings outstanding. During the six months ended June 30, 2021, we paid $38.7 million in recurring principal and interest payments on these borrowings.

In response to the impact COVID-19 has had on the performance at our healthcare properties, we entered into forbearance agreements with our lenders to defer contractual debt service for borrowings on properties within the Aqua, Rochester, Arbors, Winterfell and Fountains portfolios. We have resumed remitting debt service on these borrowings and the deferred debt service is scheduled to be repaid in full for all borrowings by January 2022. As of August 12, 2021, borrowings on properties within the Rochester and Fountains portfolios have deferred debt service outstanding totaling $1.7 million, which has increased payments and will put pressure on liquidity in future periods. These borrowings remain in technical default and are subject to the terms of the forbearance agreements until all deferred debt service is repaid.

The forbearance agreement with our lender for a mortgage note on a property within the Rochester portfolio also temporarily waived financial covenants under the mortgage note, which the property failed to maintain through December 31, 2020. As of June 30, 2021, the property is in compliance with the financial covenants under the mortgage note, however, as the impact of COVID-19 continues to influence the property's performance, we may experience additional defaults in the future.

In addition, the operator for the Arbors portfolio failed to remit rent and satisfy other conditions under its lease, which resulted in a default under the operator's lease, and in turn, resulted in a non-monetary default under the mortgage notes collateralized by the properties as of June 30, 2021. During the six months ended June 30, 2021, we remitted contractual debt service and are in compliance with the other contractual terms under the mortgage notes collateralized by the properties.

We continue to engage with lenders, where necessary, regarding further deferral of payment obligations. However, if COVID-19 continues to impact performance and we are unable to obtain accommodations from our lenders, we may be subject to cash flow sweeps, required to repay outstanding obligations, including penalties, prior to the stated maturity, or potentially have assets foreclosed upon.

In January 2021, we refinanced an existing $18.7 million note payable, collateralized by a property within the Aqua portfolio, with a $26.0 million mortgage note payable, which generated available net proceeds of $6.5 million. In April 2021, we extended the maturity date of a mortgage note payable for a property within the Rochester portfolio to August 2022 and made a $1.0 million principal repayment.

Although no significant consolidated borrowings mature for the remainder of 2021, $455.0 million of our mortgage notes secured by the Watermark Fountains net lease and operating portfolios matures in June 2022, which may require capital to be funded if favorable refinancing is not obtained. Our unconsolidated joint ventures also have significant asset level borrowings, which also may require capital to be funded if favorable refinancing is not obtained.

In April 2020, we borrowed $35.0 million under our Sponsor Line to improve our liquidity position. In July 2021, we repaid in full the $35.0 million outstanding borrowings under our Sponsor Line as principal repayments from our mezzanine loan have improved our liquidity position. Our Sponsor Line remains available to us through June 2023.

Our charter limits us from incurring borrowings that would exceed 300.0% of our net assets. We cannot exceed this limit unless any excess in borrowing over such level is approved by a majority of our independent directors. We would need to disclose any such approval to our stockholders in our next quarterly report along with the justification for such excess. An approximation of this leverage limitation, excluding indirect leverage held through our unconsolidated joint venture investments and any securitized mortgage obligations to third parties, is 75.0% of our assets, other than intangibles, before deducting loan loss reserves, other non-cash reserves and depreciation. As of June 30, 2021, our leverage was 62.0% of our assets, other than intangibles, before deducting loan loss reserves, other non-cash reserves and depreciation. As of June 30, 2021, indirect leverage on assets, other than intangibles, before deducting loan loss reserves, other non-cash reserves and depreciation, held through our unconsolidated joint ventures was 59.3%.

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

Capital Expenditures, Development and Redevelopment Activities

We are responsible for capital expenditures for our operating properties and, from time to time, may also fund capital expenditures for certain net lease properties. We continue to invest capital into our operating portfolio in order to maintain market position, as well as functional and operating standards. In addition, we will continue to execute on and identify strategic development opportunities for our existing investments that may involve replacing, converting or renovating facilities in our portfolio which, in turn, would allow us to provide an optimal mix of services, 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.

During the six months ended June 30, 2021, we spent $10.1 million on capital expenditures for our direct investments. We anticipate normalized spending on capital expenditures in 2021, including strategic development as outlined in our strategy, however, it continues to be difficult to accurately predict the full extent of the financial impact of the COVID-19 pandemic on our operations and on our liquidity needs.

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

Realization and Disposition of Investments

We evaluate dispositions of non-core investments to provide an additional source of liquidity. During the six months ended June 30, 2021, we generated total net proceeds, after loan repayments and transaction costs of $7.3 million from the disposition of four negative yielding properties. In addition, our mezzanine loan debt investment was repaid in August 2021. In 2021, we received $74.4 million in principal repayments.

We have made significant investments through both consolidated and unconsolidated joint ventures with third parties. We may share decision-making authority for these joint ventures that could prevent us from selling properties or our interest in the joint venture.

While we will continue to evaluate additional dispositions of investments in 2021, future dispositions may be delayed. If we decide to pursue a disposition to generate additional liquidity, we may generate the lower proceeds as a result of the COVID-19 pandemic.

Distributions

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

Repurchases

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

Other Commitments

We expect to continue to make payments to our Advisor, or its affiliates, pursuant to our advisory agreement, as applicable, in connection with the management of our assets and costs incurred by our Advisor in providing services to us. In December 2017, our advisory agreement was amended with changes to the asset management and acquisition fee structure. In June 2021, our advisory agreement was amended and renewed for an additional one-year term commencing on June 30, 2021. Refer to "—Related Party Arrangements" for further information regarding our advisory fees.

Cash Flows

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

Cash flows provided by (used in):	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	2021 vs. 2020 Change
Operating activities	$ (2,813)	$ 17,433	$ (20,246)
Investing activities	67,954	(3,887)	71,841
Financing activities	(28,361)	24,537	(52,898)
Net increase (decrease) in cash, cash equivalents and restricted cash	$ 36,780	$ 38,083	$ (1,303)

Operating Activities

Net cash used in operating activities totaled $2.8 million for the six months ended June 30, 2021, as compared to $17.4 million net cash provided by operating activities for the six months ended June 30, 2020. The decrease in cash provided from operating activities was a result of the lower rent and resident fee income as a result of the effects of the COVID-19 pandemic as well as payments for higher accounts payable, accrued expenses, and due to related party balances as of December 31, 2020.

Investing Activities

Our cash flows from investing activities are generally used to fund investment improvements and follow-on investments, net of any investment dispositions. Net cash provided by investing activities was $68.0 million for the six months ended June 30, 2021 as compared to $3.9 million net cash used for the six months ended June 30, 2020. Cash flows provided by investing activities for the six months ended June 30, 2021 were from principal repayments on our real estate debt investment and from property sales. Cash inflows were used to fund recurring capital expenditures for existing investments and for general operations. Cash flows used in investing activities for the six months ended June 30, 2020 were primarily recurring capital expenditures for existing investments.

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

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	2021 vs. 2020 Change
Capital Expenditures	$ 10,093	$ 5,362	$ 4,731

Financing Activities

For the six months ended June 30, 2021, net cash flows used in financing activities were primarily principal amortization and repayments on our mortgage notes payable, which increased as we repaid the mortgage note for a property sold within our Aqua portfolio. Cash outflows were partially offset by the refinancing of a mortgage note for a property within our Aqua portfolio, which generated $6.5 million in net proceeds. Cash flows used in financing activities was $28.4 million for the six months ended June 30, 2021 compared to $24.5 million cash flows provided by financing activities for the six months ended June 30, 2020. Cash flows provided by financing activities during the six months ended June 30, 2020, were primarily the $35.0 million borrowed under the Sponsor Line, partially offset by principal amortization payments on mortgage notes and repurchases of shares under our Share Repurchase Program.

Off-Balance Sheet Arrangements

As of June 30, 2021, we are not dependent on the use of any off-balance sheet financing arrangements for liquidity. We have made investments in unconsolidated ventures. Refer to Note 4, "Investments in Unconsolidated Ventures" in Part I. Item 1. "Financial Statements" for a discussion of such unconsolidated ventures in our consolidated financial statements. In each case, our exposure to loss is limited to the carrying value of our investment.

Inflation

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

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

Distributions Declared and Paid

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

From inception of our first investment on April 5, 2013 through June 30, 2021, we declared $433.8 million in distributions. Cumulative FFO for the period from April 5, 2013 through June 30, 2021 was $133.4 million. We did not declare any distributions during the six months ended June 30, 2021 and year ended December 31, 2020.

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

Related Party Arrangements

Advisor

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

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

- the payment of the asset management fee entirely in the form of our shares of common stock; and
- beginning on January 1, 2022, a reduction of the asset management fee with respect to our corporate cash balances exceeding $75.0 million, subject to the terms and conditions set forth in the Advisory Agreement; and

Fees to Advisor

Asset Management Fee

Effective January 1, 2018, our Advisor receives a monthly asset management fee equal to one-twelfth of 1.5% of our most recently published aggregate estimated net asset value, as may be subsequently adjusted for any special distribution declared by our board of directors in connection with a sale, transfer or other disposition of a substantial portion of our assets. Effective July 1, 2021, the asset management fee is to be paid entirely in shares of our common stock at a price per share equal to the most recently published net asset value per share and beginning on January 1, 2022, the fee will be reduced if our corporate cash balances exceed $75.0 million, subject to the terms and conditions set forth in the Advisory Agreement.

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

Incentive Fee

Our Advisor is entitled to receive distributions equal to 15.0% of our net cash flows, whether from continuing operations, repayment of loans, disposition of assets or otherwise, but only after stockholders have received, in the aggregate, cumulative distributions equal to their invested capital plus a 6.75% cumulative, non-compounded annual pre-tax return on such invested capital. From inception through June 30, 2021, our Advisor has not received any incentive fees.

Acquisition Fee

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

Disposition Fee

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

Reimbursements to Advisor

Operating Costs

Our Advisor is entitled to receive reimbursement for direct and indirect operating costs incurred by our Advisor in connection with administrative services provided to us. Our Advisor allocates, in good faith, indirect costs to us related to our Advisor's and its affiliates' employees, occupancy and other general and administrative costs and expenses in accordance with the terms of, and subject to the limitations contained in, the advisory agreement with our Advisor. The indirect costs include our allocable share of our Advisor's compensation and benefit costs associated with dedicated or partially dedicated personnel who spend all or a portion of their time managing our affairs, based upon the percentage of time devoted by such personnel to our affairs. The indirect costs also include rental and occupancy, technology, office supplies, travel and entertainment and other general and administrative costs and expenses. However, there is no reimbursement for personnel costs related to our executive officers (although there may be reimbursement for certain executive officers of our Advisor) and other personnel involved in activities for which our Advisor receives an acquisition fee or a disposition fee. Our Advisor allocates these costs to us relative to its and its affiliates' other managed companies in good faith and has reviewed the allocation with our board of directors, including our independent directors. Our Advisor updates our board of directors on a quarterly basis of any material changes to the expense allocation and provides a detailed review to the board of directors, at least annually, and as otherwise requested by the board of directors. We reimburse our Advisor quarterly for operating costs (including the asset management fee) based on a calculation, or the 2%/25% Guidelines, for the four preceding fiscal quarters not to exceed the greater of: (i) 2.0% of our average invested assets; or (ii) 25.0% of our net income determined without reduction for any additions to reserves for depreciation, loan losses or other similar non-cash reserves and excluding any gain from the sale of assets for that period. Notwithstanding the above, we may reimburse our Advisor for expenses in excess of this limitation if a majority of our independent directors determines that such excess expenses are justified based on unusual and non-recurring factors. We calculate the expense reimbursement quarterly based upon the trailing twelve-month period.

Summary of Fees and Reimbursements

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

Type of Fee or Reimbursement	Financial Statement Location	Due to Related Party as of December 31, 2020	Six Months Ended June 30, 2021 Incurred	Six Months Ended June 30, 2021 Paid	Due to Related Party as of June 30, 2021 (Unaudited)
Fees to Advisor Entities					
Asset management[1]	Asset management fees-related party	$ 923	$ 5,538	$ (5,538) [2]	$ 923
Reimbursements to Advisor Entities					
Operating costs[2]	General and administrative expenses	7,395	5,660	(10,284)	2,771
Total		$ 8,318	$ 11,198	$ (15,822)	$ 3,694

(1) Includes $5.0 million paid in shares of our common stock.
(2) As of June 30, 2021, our Advisor did not have any unreimbursed operating costs which remained eligible to be allocated to us.

Pursuant to our advisory agreement, for the six months ended June 30, 2021, we issued 1.3 million shares totaling $5.0 million, based on the estimated value per share on the date of each issuance, to an affiliate of our Advisor as part of its asset management fee. As of June 30, 2021, our Advisor, our Sponsor and their affiliates owned a total of 6.0 million shares or $23.3 million of our common stock based on our most recent estimated value per share. As of June 30, 2021, our Advisor, our Sponsor and their affiliates owned 3.1% of the total outstanding shares of our common stock.

Investments in Joint Ventures

Solstice, the manager of the Winterfell portfolio, is a joint venture between affiliates of ISL, who owns 80.0%, and us, who owns 20.0%. For the six months ended June 30, 2021, we recognized property management fee expense of $2.4 million paid to Solstice related to the Winterfell portfolio.

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

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

In connection with the acquisition of the Diversified US/UK portfolio by NorthStar Realty Finance Corp., or NorthStar Realty, now a subsidiary of DigitalBridge, and us, our Sponsor acquired a 43.0%, as adjusted, ownership interest in American Healthcare Investors, LLC, or AHI.

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

Mezzanine Loan

In July 2015, we originated a $75.0 million mezzanine loan to a subsidiary of our joint venture with Formation and Safanad Management Limited, or the Espresso joint venture. As of June 30, 2021, the outstanding principal balance of the mezzanine loan was $27.7 million. Refer to "—Recent Developments" for further detail.

Line of Credit - Related Party

In October 2017, we obtained our Sponsor Line, which was approved by our board of directors, including all of our independent directors. As of June 30, 2021, our Sponsor Line has a borrowing capacity of $35.0 million at an interest rate of 3.5% plus LIBOR and has a maturity date of June 2023. In April 2020, we borrowed $35.0 million under the Sponsor Line to improve our liquidity position as a result of the COVID-19 pandemic. Refer to "—Recent Developments" for further information regarding our Sponsor Line.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

Changes in interest rates may affect our net income as a result of changes in interest expense incurred in connection with floating-rate borrowings used to finance our equity investments. As of June 30, 2021, 11.6% of our total borrowings were floating rate liabilities and none of our real estate debt investments were floating rate investments. As of June 30, 2021, floating rate liabilities outstanding related to mortgage notes payable of our direct operating investments and our Sponsor Line.

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

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

The interest rate on our floating-rate liabilities is a fixed spread over an index such as LIBOR and typically reprices every 30 days based on LIBOR in effect at the time. As of June 30, 2021, a hypothetical 100 basis point increase in interest rates would increase net interest expense by $1.7 million annually. We did not have any floating rate real estate debt investments as of June 30, 2021.

A change in interest rates could affect the value of our fixed-rate debt investments. For instance, an increase in interest rates would result in a higher required yield on investments, which would decrease the value on existing fixed-rate investments in order to adjust their yields to current market levels. As of June 30, 2021, we had one fixed-rate debt investment with an outstanding principal balance of $27.7 million.

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

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

Credit Risk

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

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

As of June 30, 2021, one borrower, a subsidiary of the Espresso joint venture, accounted for 100% of the aggregate principal amount of our debt investments and 100% of our interest income for the six months ended June 30, 2021. Refer to "—Recent Developments" for further detail.

Risk Concentration

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

Operator / Manager		Properties Under Management	Units Under Management(1)	Six Months Ended June 30, 2021: Property and Other Revenues(2)	Six Months Ended June 30, 2021: % of Total Property and Other Revenues
Watermark Retirement Communities		29	5,049	$ 65,950	54.4 %
Solstice Senior Living	(3)	32	4,000	48,106	39.7 %
Avamere Health Services		5	453	8,384	6.9 %
Arcadia Management	(4)	4	572	(5,520)	(4.6)%
Integral Senior Living	(5)	1	44	4,279	3.5 %
Other	(6)	—	—	42	0.1 %
Total		71	10,118	$ 121,241	100.0 %

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

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

(3) Solstice is a joint venture of which affiliates of ISL own 80%.
(4) During the six months ended June 30, 2021, the Company recorded rental income to the extent rental payments were received. Rental income was reduced by $7.4 million for the write-off of straight-line rent receivables, as full collection of rent under the lease was deemed not to be probable.
(5) Property and other revenues includes amounts from two properties sold in June 2021, which are excluded from the property count.
(6) Consists primarily of interest income earned on corporate-level cash accounts.

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

The lease for the properties operated by Watermark Retirement Communities ("Watermark") expires in March 2022. Watermark has provided notice it will not renew the lease and it may be difficult to find a replacement operator to operate these properties.

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. Considering the COVID-19 pandemic, we have supplemented our framework by instituting certain entity level procedures and controls that ensure communication amongst our team that enhances our ability to prevent and detect material errors and omissions.

Internal Control over Financial Reporting

Changes in Internal Control over Financial Reporting.

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

Part II—Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, as filed with the SEC on March 23, 2021, except as noted below.

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

Our organizational documents permit us to pay distributions from any source, including offering proceeds, borrowings, our Advisor's agreement to defer, reduce or waive fees (or accept, in lieu of cash, shares of our common stock) or sales of assets or we may make distributions in the form of taxable stock dividends. We have not established a limit on the amount of proceeds we may use to fund distributions. We have funded distributions in excess of our cash flow from operations. For the six months ended June 30, 2021 and year ended December 31, 2020, we have not declared any distributions.

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

Item 2. 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. In addition, our Share Repurchase Program will terminate in the event a secondary market develops for our shares or if our shares are listed on a national exchange or included for quotation in a national securities market.

For the six months ended June 30, 2021, we have not repurchased any shares of our common stock.

Unregistered Sales of Equity Securities

On April 30, 2021, May 31, 2021, and June 30, 2021 we issued 214,225 shares of common stock at $3.89 per share, respectively, to our Advisor as part of its asset management fee, pursuant to our advisory agreement. These shares were issued pursuant to an exemption from registration under Section 4(a)(2) of the Securities Act for transactions not involving a public offering.

On June 17, 2021, our board of directors appointed a new independent director to serve as a member of our board of directors and our audit committee. In accordance with our independent directors' compensation plan, we granted 16,710 shares of restricted stock units at $3.89 per share to our newly appointed independent director. On June 17, 2021 we granted 16,710 shares of restricted stock units at $3.89 per share to each of our independent directors totaling an aggregate of 66,840 shares of restricted stock units, pursuant to our independent directors' compensation plan. These shares were issued pursuant to an exemption from registration under Section 4(a)(2) of the Securities Act for transactions not involving a public offering.

Item 4. Mine Safety Disclosures

Not applicable.

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	Amendment No. 3 to Advisory Agreement dated as of June 30, 2021 by and among NorthStar Healthcare Income, Inc., NorthStar Healthcare Income Operating Partnership, LP, CNI NSHC Advisors, LLC and DigitalBridge Group, Inc. (f/k/a Colony Capital, Inc.) (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 1, 2021 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

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: August 13, 2021

By: /s/ RONALD J. JEANNEAULT
Name: Ronald J. Jeanneault
Title: *Chief Executive Officer, President and Vice Chairman*

By: /s/ NEALE W. REDINGTON
Name: Neale W. Redington
Title: *Chief Financial Officer and Treasurer*