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 September 30, 2020

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, 190,153,995 shares outstanding as of November 12, 2020.

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. These factors include, but are not limited to:

- the financial impact of the COVID-19 virus on our operations, including our ability to comply with the terms of our borrowings, the severity of which depends on the extent and nature of exposure of residents and staff to COVID-19, the availability and timeliness of adequate tests, better access to supplies and the duration of the crisis, among other factors;
- our ability to manage our liquidity and access to capital;
- our ability to implement our business strategy;
- our dependence on our managers and tenants to operate our properties successfully and in compliance with applicable law and the terms of our borrowings;
- the ability and willingness of our tenants, operators, managers and other third parties to satisfy their respective obligations to us, including in some cases their obligation to indemnify us from and against various claims and liabilities;
- the ability of our property managers and tenants to maintain the financial strength and liquidity necessary to satisfy their respective obligations and liabilities to us and third parties;
- factors that can cause volatility in our operating income generated by our operating properties, including without limitation national and regional economic conditions, development of new competing properties, costs and availability of food, materials, energy, labor and services, employee benefit costs, insurance costs and professional and general liability claims, and the timely delivery of accurate property-level financial results for those properties;
- the ability and willingness of our tenants to renew their leases with us upon expiration of the leases and our ability to reposition our properties on the same or better terms in the event of nonrenewal or in the event of a termination or default;
- our ability to comply with the terms of our borrowings, which depends in part on the performance of our tenants and managers;
- the nature and extent of future competition, including new construction in the markets in which our assets are located;
- the extent and timing of future healthcare reform and regulation, including changes in reimbursement policies, procedures and rates;
- risks associated with our joint ventures and unconsolidated entities, including our reliance on joint venture partners, lack of decision making authority and the financial condition of our joint venture partners;
- our dependence on the resources and personnel of our advisor, our sponsor and their affiliates, including our advisor's ability to manage our portfolio on our behalf;
- the performance of our advisor, our sponsor and their affiliates;
- the impact of continued business uncertainties surrounding our sponsor, as well as adverse changes in the financial health and public perception of our sponsor;

- our advisor's and its affiliates' ability to attract and retain qualified personnel to support our operations and potential changes to key personnel providing management services to us;
- our reliance on our advisor and its affiliates and sub-advisors/co-venturers in providing management services to us, the payment of substantial fees to our advisor, and various potential conflicts of interest in our relationship with our sponsor;
- our use of leverage;
- the impact of fluctuations in interest rates;
- illiquidity of properties, joint venture or debt investments in our portfolio;
- our ability to make distributions to our stockholders;
- the lack of a public trading market for our shares;
- the effect of paying distributions to our stockholders from sources other than cash flow provided by operations;
- the potential failure to maintain effective internal controls and disclosure controls and procedures;
- regulatory requirements with respect to our business and the healthcare industry generally, as well as the related cost of compliance;
- legislative and regulatory changes, including changes to laws governing the taxation of real estate investment trusts, or REITs;
- our ability to maintain our qualification as a REIT for federal income tax purposes and limitations imposed on our business by our status as a REIT;
- the loss of our exemption from registration under the Investment Company Act of 1940, as amended, or the Investment Company Act; and
- other risks associated with investing in our targeted investments, including changes in our industry, interest rates, the securities markets, the general economy or the capital markets and real estate markets specifically.

The foregoing list of factors is not exhaustive. 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, 2019 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)

	September 30, 2020 (Unaudited)	December 31, 2019
Assets		
Cash and cash equivalents	$ 72,305	$ 41,884
Restricted cash	26,504	16,936
Operating real estate, net	1,571,696	1,700,218
Investments in unconsolidated ventures	230,257	268,894
Real estate debt investments, net	55,038	55,468
Assets held for sale	—	1,649
Receivables, net	15,650	13,314
Deferred costs and intangible assets, net	26,951	28,355
Other assets	9,561	14,489
Total assets[(1)]	$ 2,007,962	$ 2,141,207
Liabilities		
Mortgage and other notes payable, net	$ 1,421,453	$ 1,431,922
Line of credit - related party	35,000	—
Due to related party	3,884	5,780
Escrow deposits payable	4,429	3,292
Accounts payable and accrued expenses	37,025	28,135
Other liabilities	4,124	4,574
Total liabilities[(1)]	1,505,915	1,473,703
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 September 30, 2020 and December 31, 2019	—	—
Common stock, $0.01 par value, 400,000,000 shares authorized, 190,020,662 and 189,111,561 shares issued and outstanding as of September 30, 2020 and December 31, 2019, respectively	1,900	1,891
Additional paid-in capital	1,707,876	1,702,260
Retained earnings (accumulated deficit)	(1,211,046)	(1,041,297)
Accumulated other comprehensive income (loss)	(869)	(470)
Total NorthStar Healthcare Income, Inc. stockholders' equity	497,861	662,384
Non-controlling interests	4,186	5,120
Total equity	502,047	667,504
Total liabilities and equity	$ 2,007,962	$ 2,141,207

(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 September 30, 2020, the Operating Partnership includes $0.6 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Property and other revenues				
Resident fee income	$ 28,006	$ 32,283	$ 90,033	$ 97,658
Rental income	39,114	40,410	118,309	121,168
Other revenue	635	85	1,612	1,445
Total property and other revenues	67,755	72,778	209,954	220,271
Interest income				
Interest income on debt investments	1,927	1,946	5,738	5,771
Expenses				
Real estate properties - operating expenses	46,501	45,359	137,530	135,213
Interest expense	16,459	17,218	49,591	51,908
Transaction costs	—	29	7	105
Asset management and other fees - related party	4,431	4,994	13,293	14,983
General and administrative expenses	3,446	2,807	8,763	8,210
Depreciation and amortization	15,945	16,164	48,929	54,525
Impairment loss	—	—	91,437	10,146
Total expenses	86,782	86,571	349,550	275,090
Other income (loss)				
Realized gain (loss) on investments and other	—	204	—	5,926
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax expense	(17,100)	(11,643)	(133,858)	(43,122)
Equity in earnings (losses) of unconsolidated ventures	(1,043)	(3,037)	(36,799)	(7,666)
Income tax expense	(15)	(17)	(43)	(38)
Net income (loss)	(18,158)	(14,697)	(170,700)	(50,826)
Net (income) loss attributable to non-controlling interests	171	73	951	439
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (17,987)	$ (14,624)	$ (169,749)	$ (50,387)
Net income (loss) per share of common stock, basic/diluted	$ (0.09)	$ (0.08)	$ (0.90)	$ (0.27)
Weighted average number of shares of common stock outstanding, basic/diluted	189,756,911	189,094,572	189,378,629	189,061,291
Distributions declared per share of common stock	$ —	$ —	$ —	$ 0.03

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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income (loss)	$ (18,158)	$ (14,697)	$ (170,700)	$ (50,826)
Other comprehensive income (loss)				
Foreign currency translation adjustments related to investment in unconsolidated venture	459	786	(399)	(88)
Total other comprehensive income (loss)	459	786	(399)	(88)
Comprehensive income (loss)	(17,699)	(13,911)	(171,099)	(50,914)
Comprehensive (income) loss attributable to non-controlling interests	171	73	951	439
Comprehensive income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (17,528)	$ (13,838)	$ (170,148)	$ (50,475)

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, 2018	188,495	$ 1,885	$ 1,697,998	$ (958,924)	$ (2,284)	$ 738,675	$ 5,699	$ 744,374
Share-based payment of advisor asset management fees	352	4	2,496	—	—	2,500	—	2,500
Amortization of equity-based compensation	—	—	45	—	—	45	—	45
Non-controlling interests - contributions	—	—	—	—	—	—	256	256
Non-controlling interests - distributions	—	—	—	—	—	—	(72)	(72)
Shares redeemed for cash	(279)	(3)	(1,975)	—	—	(1,978)	—	(1,978)
Distributions declared	—	—	—	(5,413)	—	(5,413)	—	(5,413)
Proceeds from distribution reinvestment plan	687	7	4,869	—	—	4,876	—	4,876
Other comprehensive income (loss)	—	—	—	—	200	200	—	200
Net income (loss)	—	—	—	(18,617)	—	(18,617)	(52)	(18,669)
Balance as of March 31, 2019 (Unaudited)	189,255	$ 1,893	$ 1,703,433	$ (982,954)	$ (2,084)	$ 720,288	$ 5,831	$ 726,119
Share-based payment of advisor asset management fees	352	4	2,496	—	—	2,500	—	2,500
Issuance and amortization of equity-based compensation	25	—	46	—	—	46	—	46
Non-controlling interests - contributions	—	—	—	—	—	—	62	62
Non-controlling interests - distributions	—	—	—	—	—	—	(67)	(67)
Shares redeemed for cash	(450)	(5)	(3,199)	—	—	(3,204)	—	(3,204)
Other comprehensive income (loss)	—	—	—	—	(1,074)	(1,074)	—	(1,074)
Net income (loss)	—	—	—	(17,146)	—	(17,146)	(314)	(17,460)
Balance as of June 30, 2019 (Unaudited)	189,182	$ 1,892	$ 1,702,776	$ (1,000,100)	$ (3,158)	$ 701,410	$ 5,512	$ 706,922
Share-based payment of advisor asset management fees	352	4	2,496	—	—	2,500	—	2,500
Amortization of equity-based compensation	—	—	45	—	—	45	—	45
Non-controlling interests - contributions	—	—	—	—	—	—	112	112
Non-controlling interests - distributions	—	—	—	—	—	—	(74)	(74)
Shares redeemed for cash	(315)	(3)	(2,231)	—	—	(2,234)	—	(2,234)
Other comprehensive income (loss)	—	—	—	—	786	786	—	786
Net income (loss)	—	—	—	(14,624)	—	(14,624)	(73)	(14,697)
Balance as of September 30, 2019 (Unaudited)	189,219	$ 1,893	$ 1,703,086	$ (1,014,724)	$ (2,372)	$ 687,883	$ 5,477	$ 693,360

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, 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
Share-based payment of advisor asset management fees	400	4	2,496	—	—	2,500	—	2,500
Amortization of equity-based compensation	—	—	46	—	—	46	—	46
Non-controlling interests - contributions	—	—	—	—	—	—	75	75
Non-controlling interests - distributions	—	—	—	—	—	—	(12)	(12)
Other comprehensive income (loss)	—	—	—	—	459	459	—	459
Net income (loss)	—	—	—	(17,987)	—	(17,987)	(171)	(18,158)
Balance as of September 30, 2020 (Unaudited)	190,020	$ 1,900	$ 1,707,876	$ (1,211,046)	$ (869)	$ 497,861	$ 4,186	$ 502,047

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

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

	Nine Months Ended September 30,	
	2020	2019
Cash flows from operating activities:		
Net income (loss)	$ (170,700)	$ (50,826)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Equity in (earnings) losses of unconsolidated ventures	36,799	7,666
Depreciation and amortization	48,929	54,525
Impairment loss	91,437	10,146
Capitalized interest for mortgage and other notes payable	222	193
Amortization of below market debt	2,311	2,253
Straight-line rental income, net and amortization of lease inducements	224	(478)
Amortization of discount/accretion of premium on investments	(92)	(83)
Amortization of deferred financing costs	1,416	1,367
Amortization of equity-based compensation	123	136
Realized (gain) loss on investments and other	—	(5,926)
Allowance for uncollectible accounts	1,803	595
Issuance of common stock as payment for asset management fees	7,500	7,500
Changes in assets and liabilities:		
Receivables	(4,363)	(790)
Other assets	4,961	(644)
Due to related party	(1,896)	(1,330)
Escrow deposits payable	1,137	1,739
Accounts payable and accrued expenses	8,274	(5,257)
Other liabilities	(105)	(743)
Net cash provided by operating activities	27,980	20,043
Cash flows from investing activities:		
Capital expenditures for operating real estate	(8,990)	(14,644)
Sale of operating real estate	927	19,618
Investment in unconsolidated ventures	—	(39,801)
Distributions from unconsolidated ventures	1,963	16,846
Other assets	(35)	934
Net cash (used in) investing activities	(6,135)	(17,047)
Cash flows from financing activities:		
Borrowings from mortgage notes	—	12,800
Repayment of mortgage notes	(14,418)	(45,868)
Borrowings from line of credit - related party	35,000	—
Payment of deferred financing costs	—	(708)
Payments under finance leases	(457)	(424)
Shares redeemed for cash	(1,998)	(7,416)
Distributions paid on common stock	—	(10,813)
Proceeds from distribution reinvestment plan	—	4,876
Contributions from non-controlling interests	168	430
Distributions to non-controlling interests	(151)	(213)
Net cash provided by (used in) financing activities	18,144	(47,336)
Net increase (decrease) in cash, cash equivalents and restricted cash	39,989	(44,340)
Cash, cash equivalents and restricted cash-beginning of period	58,820	94,508
Cash, cash equivalents and restricted cash-end of period	$ 98,809	$ 50,168

	Nine Months Ended September 30,	
	2020	2019
Supplemental disclosure of non-cash investing and financing activities:		
Accrued capital expenditures	$ 616	$ 835
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"), was formed to acquire, originate and asset manage a diversified portfolio of equity, debt and securities investments in healthcare real estate, directly or through joint ventures, with a focus on the mid-acuity senior housing sector, which the Company defines as assisted living ("ALF"), memory care ("MCF"), skilled nursing ("SNF"), independent living ("ILF") facilities and continuing care retirement communities ("CCRC"), which may have independent living, assisted living, skilled nursing and memory care available on one campus. The Company also invests in other healthcare property types, including medical office buildings ("MOB"), hospitals, rehabilitation facilities and ancillary healthcare services businesses. The Company's investments are predominantly in the United States, but it also selectively makes international investments.

The Company was formed in October 2010 as a Maryland corporation and commenced operations in February 2013. The Company elected to be taxed as a 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 conducts its operations 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 September 30, 2020 and December 31, 2019. 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 September 30, 2020, 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 completed its initial public offering (the "Initial Offering") on February 2, 2015 by raising gross proceeds of $1.1 billion, including 108.6 million shares issued in its initial primary offering (the "Initial Primary Offering") and 2.0 million shares issued pursuant to its distribution reinvestment plan (the "DRP"). In addition, the Company completed its follow-on offering (the "Follow-On Offering") on January 19, 2016 by raising gross proceeds of $700.0 million, including 64.9 million shares issued in its follow-on primary offering (the "Follow-on Primary Offering") and 4.2 million shares issued pursuant to the DRP. The Company refers to its Initial Primary Offering and its Follow-on Primary Offering collectively as the "Primary Offering" and its Initial Offering and Follow-On Offering collectively as the "Offering." In December 2015, the Company registered an additional 30.0 million shares to be offered pursuant to the DRP. From inception through September 30, 2020, the Company raised total gross proceeds of $2.0 billion, including $232.6 million in DRP proceeds.

The Company is externally managed and has no employees. The Company is sponsored by Colony Capital, Inc. (NYSE: CLNY) ("Colony Capital" or the "Sponsor"), which was formed as a result of the mergers of NorthStar Asset Management Group Inc.("NSAM"), its prior sponsor, with Colony Capital, Inc. ("Colony") and NorthStar Realty Finance Corp. ("NorthStar Realty") in January 2017. Effective June 25, 2018, the Sponsor changed its name from Colony NorthStar, Inc. to Colony Capital, Inc. and its ticker symbol from "CLNS" to "CLNY." Following the mergers, the Sponsor became an internally-managed equity REIT, with a diversified real estate and investment management platform.

Colony Capital manages capital on behalf of its stockholders, as well as institutional and retail investors in private funds, non-traded and traded REITs and registered investment companies. The Company's advisor, CNI NSHC Advisors, LLC (the "Advisor"), is a subsidiary of Colony Capital and manages its day-to-day operations pursuant to an advisory agreement.

Impact of COVID-19

At the time of preparation of the third quarter 2020 financial statements, the world is continuing to face a global pandemic, the coronavirus 2019 ("COVID-19"). Efforts to address the pandemic continue to significantly impact economic and financial markets globally and across all facets of industries, including real estate. Specifically, 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. Most of these COVID-19 effects on the Company's business significantly impacted results of operations beginning with the three months ended June 30, 2020, and continuing through the three months ended September 30, 2020. At this time, the Company anticipates these pronounced and significant effects to be sustained and continue in future periods. While the Company itself has the ability to meet its near term liquidity needs, general market concerns over credit and liquidity continue to permeate in an economic downturn environment. The effects of COVID-19 may also lead to heightened risk of litigation at the investment and corporate level, with an ensuing increase in litigation and related costs.

If a general economic downturn resulting from efforts to contain COVID-19 persists over an extended period of time, this could have a prolonged negative impact on the Company's financial condition and results of operations. At this time, as the extent and duration of the increasingly broad effects of COVID-19 on the global economy remain unclear, it is difficult for the Company to assess and estimate the impact on the Company's results of operations with any meaningful precision. 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 COVID-19 and reassess its effects on the Company’s results of operations and recoverability in value across its assets as conditions change.

2. Summary of Significant Accounting Policies

Basis of Accounting

Basis of Quarterly Presentation

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, 2019, which was filed with the U.S. Securities and Exchange Commission on March 23, 2020.

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. Further, federal COVID-19 provider relief funds, which totaled $0.8 million for the three months ended June 30, 2020 and presented as resident fee income have been reclassified to other revenue on the consolidated statements of operations during the three months ended September 30, 2020.

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. Significant judgments related to these determinations include estimates about the current and future fair value and performance of investments held by these VIEs and general market conditions.

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

As of September 30, 2020, 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 September 30, 2020 is $553.2 million related to such consolidated VIEs. Included in mortgage and other notes payable, net on the Company's consolidated balance sheet as of September 30, 2020 is $460.5 million, collateralized by the real estate assets of the related consolidated VIEs.

Unconsolidated VIEs

As of September 30, 2020, the Company identified unconsolidated VIEs related to its real estate equity investments with a carrying value of $230.3 million. The Company's maximum exposure to loss as of September 30, 2020 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 September 30, 2020. The Company did not provide financial support to its unconsolidated VIEs during the nine months ended September 30, 2020. As of September 30, 2020, 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.

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.

Fair Value Option

The fair value option provides an election that allows a company to irrevocably elect to record certain financial assets and liabilities at fair value on an instrument-by-instrument basis at initial recognition. The Company may elect to apply the fair value option for certain investments due to the nature of the instrument. Any change in fair value for assets and liabilities for which the election is made is recognized in earnings.

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):

	September 30, 2020 (Unaudited)	December 31, 2019
Cash and cash equivalents	$ 72,305	$ 41,884
Restricted cash	26,504	16,936
Total cash, cash equivalents and restricted cash	$ 98,809	$ 58,820

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 $3.5 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 nine months ended September 30, 2020 and 2019, payments for finance leases totaled $0.5 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):

October 1 to December 31, 2020	$	174
Years Ending December 31:		
2021		670
2022		577
2023		155
2024		59
Thereafter		26
Total minimum lease payments	$	1,661
Less: Amount representing interest	$	(135)
Present value of minimum lease payments	$	1,526

The weighted average interest rate related to the finance lease obligations is 6.2% with a weighted average lease term of 2.6 years.

As of September 30, 2020, 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 September 30, 2020, the Company did not have any assets classified as held for sale. As of December 31, 2019, the Company classified one operating real estate property within the Peregrine portfolio as held for sale, which was sold during the three months ended September 30, 2020.

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.

Deferred Costs and Intangible Assets

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 "—Credit Losses and Impairment on Investments - Operating Real Estate" 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 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.

The Company considered whether changes in the current economic environment as a result of the COVID-19 pandemic and the impact thereof on the Company's healthcare real estate business represent indicators of potential impairment to goodwill. As COVID-19 has resulted in limited admissions at the Company's properties, which have decreased resident fee income, and increased cost burdens and operating expenses, the Company has determined the impact of COVID-19 to be a potential indicator of impairment to goodwill during the three months ended June 30, 2020 and September 30, 2020, respectively.

Accordingly, the Company performed an impairment test for goodwill as of June 30, 2020 and September 30, 2020 and has concluded that the fair value of its goodwill reporting unit remains greater than its carrying value and has not recorded impairment to goodwill during the nine months ended September 30, 2020. The Company utilized future net cash flows expected to be generated by the properties in discounted cash flow analysis using terminal capitalization rates ranging from 6.50% to 7.75% and discount rates ranging from 7.75% to 9.25%.

For the goodwill impairment tests performed as of June 30, 2020 and September 30, 2020, respectively, the Company concluded that the fair value of the goodwill reporting unit was less than 5% in excess of its carrying value. If a general economic downturn resulting from efforts to contain COVID-19 persists over an extended period of time, this could have a prolonged negative impact on the performance of the Company's operating real estate. At this time, as the extent and duration of the increasingly broad effects of COVID-19 on the global economy remain unclear, it is difficult for the Company to assess and estimate the impact with any meaningful precision.

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):

	September 30, 2020 (Unaudited)	December 31, 2019
Deferred costs and intangible assets, net:		
In-place lease value, net	$ 5,086	$ 6,437
Goodwill	21,387	21,387
Certificate of need intangible assets	380	380
Subtotal intangible assets	26,853	28,204
Deferred costs, net	98	151
Total	$ 26,951	$ 28,355

The Company recorded $1.4 million and $7.8 million of amortization expense for in-place leases and deferred costs for the nine months ended September 30, 2020 and 2019, 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 $125.0 million has been amortized as of September 30, 2020. All other in-place leases related to the Company's direct investment - operating properties have been fully amortized as of September 30, 2020.

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

October 1 to December 31, 2020	$ 468
Years Ending December 31:	
2021	1,871
2022	593
2023	337
2024	337
Thereafter	1,578
Total	$ 5,184

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 nine months ended September 30, 2020, 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.

Other Assets

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

	September 30, 2020 (Unaudited)	December 31, 2019
Other assets:		
Healthcare facility regulatory reserve deposit[1]	$ —	$ 6,000
Remainder interest in condominium units[2]	2,327	2,327
Prepaid expenses	4,547	3,841
Lease / rent inducements, net	2,065	1,636
Utility deposits	314	317
Other	308	368
Total	$ 9,561	$ 14,489

(1) As of September 30, 2020, the Company is in possession of the regulatory reserve deposit and, accordingly, the amount totaling $6.0 million has been reclassified to restricted cash.
(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 various types of tenants and 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 revenue recognition commences when the tenant 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 tenant inducements as a reduction of revenue utilizing the straight-line method over the term of the lease.

The Company also generates operating income 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. Income derived from our ALFs, MCFs and CCRCs is recorded in resident fee income in the consolidated statements of operations.

Lease income from tenants, operators, residents is recognized at lease commencement only to the extent collection is expected to be probable in consideration of tenants', operators', 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 lease payments collected, with the reversal of any income recognized to date in excess of amounts received. If collection is subsequently reassessed to be probable, lease income is adjusted to reflect the amount of income that would have been recognized had collection always been assessed as probable. For the nine months ended September 30, 2020, the tenant of the Peregrine portfolio failed to remit rental payments and accordingly no rental income was recognized. Further, the Company continues to monitor the tenant for the Arbors portfolio, which is currently in lease default as a result of failing to remit rent timely and satisfy other conditions under its lease. As of September 30, 2020, the Company expects rent collection to be probable for the Arbors portfolio.

For the three months ended September 30, 2020 and 2019, total property and other revenues includes variable lease revenues of $2.6 million and $4.2 million, respectively. For the nine months ended September 30, 2020 and 2019, total property and other revenues includes variable lease revenues of $10.9 million and $12.3 million, respectively. Variable lease income includes ancillary services provided to tenant/residents, as well as non-recurring services and fees at the Company's operating facilities. In addition, total property and other revenues includes federal COVID-19 provider relief funds received by the Company's operating facilities, totaling $0.6 million and $1.4 million for the three and nine months ended September 30, 2020, respectively.

Lease Concessions Related to COVID-19

As a result of the COVID-19 crisis, the Company continues to engage with affected tenants 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 tenant of its Fountains net lease portfolio. The concession allowed the tenant to defer a portion of contractual rent payments for a 90-day period, with full contractual rent to be repaid over the 12 months following the concession period. The lease concession provided the tenant relief consistent with the debt forbearance received from the lender of the properties in the portfolio. The amount of the deferred rental payments under the lease concession totaled $3.9 million. The lease concession period ended on August 31, 2020 and the tenant has resumed remitting contractual rent payments, including amounts related to deferred rent granted under the lease concession. As there has not been substantive changes to the original lease or changes in total cash flows, the concession will not be treated as a lease modification and the Company will continue 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.

Impairment on Operating Real Estate and Investments in Unconsolidated Ventures

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 nine months ended September 30, 2020, the Company recorded impairment losses totaling $91.4 million on its operating real estate and held for sale investments. Impairment losses recorded during the nine months ended September 30, 2020 include the following:

- Winterfell Portfolio. Impairment losses totaled $70.8 million for eight independent living facilities as a result of sustained declines in occupancy and operating margins.
- Aqua Portfolio. Impairment losses totaled $19.9 million for a facility that has sustained poor performance and declines in occupancy and has been significantly impacted by the effects of COVID-19.
- Peregrine Portfolio. Impairment losses totaled $0.7 million to reflect an updated net realizable value for a facility previously designated as held for sale.

Due to uncertainties over the extent and duration of the economic fallout from COVID-19, at this time, it is difficult for the Company to assess and estimate the future economic effects of COVID-19 with any meaningful precision. As the actual 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 may materially differ from the Company's current expectations and further impairment charges may be recorded in future periods.

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 nine months ended September 30, 2020, the Company did not impair any of its investments in unconsolidated ventures, however, the underlying joint ventures have recorded impairments and reserves on properties in their respective portfolios, which the Company has recognized through equity in earnings (losses), of which the Company's proportionate share

totaled $37.8 million. Significant impairment losses recorded by the underlying joint ventures during the nine months ended September 30, 2020 include the following:

- Griffin-American Portfolio. The Company's proportionate share of impairment losses totaled $34.1 million. Operating real estate impairment resulted from shortened holding period assumptions and lower projected future cash flows and market values as a result of the economic effects of COVID-19.
- Eclipse Portfolio. The Company's proportionate share of impairment losses totaled $3.1 million. Operating real estate impairment resulted from lower projected future market values as a result of the economic effects of COVID-19.
- Trilogy Portfolio. The Company's proportionate share of impairment losses totaled $0.6 million.

Due to uncertainties over the extent and duration of the economic fallout from COVID-19, at this time, it is difficult for the Company to assess and estimate the future economic effects of COVID-19 with any meaningful precision. As the actual 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 investments in unconsolidated ventures may materially differ from the Company's current expectations and further impairment charges may be recorded in future periods.

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 September 30, 2020, 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.

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 September 30, 2020 and December 31, 2019, 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.

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 2016 to 2019, 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 tenants/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 September 30, 2020 totaled $20.2 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.

On December 22, 2017, the Tax Cuts and Jobs Act was enacted, which provides for a reduction in the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. The effects of the tax rate change did not have a material impact on the Company's existing deferred tax balances.

The Company recorded an income tax expense of approximately $15,000 and $43,000 for the three and nine months ended September 30, 2020, respectively. The Company recorded an income tax expense of approximately $17,000 and $38,000 for the three and nine months ended September 30, 2019, respectively.

Recent Accounting Pronouncements

Accounting Standards Adopted in 2020

Credit Losses—In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments- Credit Losses*, followed by subsequent amendments, which modifies the credit impairment model for financial instruments, and codified as Accounting Standards Codification ("ASC") Topic 326. The multiple existing incurred loss models have been replaced with the CECL model for off-balance sheet credit exposures that are not unconditionally cancellable by the lender and financial instruments carried at amortized cost, such as loans, loan commitments, held-to-maturity debt securities, financial guarantees, net investment in sales-type and direct financing leases, reinsurance and trade receivables. Targeted changes are also made to the impairment model of available-for-sale ("AFS") debt securities which are not within the scope of CECL.

The CECL model, in estimating expected credit losses over the life of a financial instrument at the time of origination or acquisition, considers historical loss experience, current conditions and the effects of a reasonable and supportable expectation of changes in future macroeconomic conditions. Recognition of allowance for credit losses under the CECL model will generally be accelerated as it encompasses credit losses over the full remaining expected life of the affected financial instruments. For collateralized financial assets, measurement of credit losses under CECL is based on fair value of the collateral if foreclosure is probable or if the collateral-dependent practical expedient is elected for financial assets expected to be repaid substantially through operation or sale of the collateral when the borrower is experiencing financial difficulty. The accounting model for purchased credit-impaired loans and debt securities will be simplified to be consistent with the CECL model for originated and purchased non-credit-impaired assets. For AFS debt securities, unrealized credit losses will be recognized as allowances rather than reductions in amortized cost basis and elimination of the other-than-temporary impairment concept will result in more frequent estimation of credit losses. ASC 326 also requires expanded disclosures on credit risk, including credit quality indicators by vintage of financing receivables.

The Company adopted the new standard on January 1, 2020. The Company has identified its mezzanine loan debt investment to be within the scope of ASU No. 2016-13. The Company has developed the policies, systems and controls required for the implementation and ongoing management of CECL. ASU 2016-13 specifies that an allowance for credit losses should be based on relevant information about past events, including historical loss experience, current portfolio and market conditions, and reasonable and supportable forecasts for the duration of each respective loan. Based on its analysis, the Company has not recorded any credit loss allowance for its mezzanine loan upon the adoption of this standard. Refer to Note 5, "Real Estate Debt Investments" for additional information.

The Company had no debt securities with unrealized loss in accumulated other comprehensive income as of December 31, 2019 and accordingly, there was no impact upon adoption of the new standard. As it relates to the Company's other accounts receivable that are subject to CECL, there was no impact from adoption of the new standard.

Related Party Guidance for VIEs—In November 2018, the FASB issued ASU No. 2018-17, *Targeted Improvements to Related Party Guidance for Variable Interest Entities*. The ASU amends the VIE guidance to align, throughout the VIE model, the evaluation of a decision maker's or service provider's fee held by a related party, whether or not they are under common control, in both the assessment of whether the fee qualifies as a variable interest and the determination of a primary beneficiary. Specifically, a decision maker or service provider considers interests in a VIE held by a related party under common control only if it has a direct interest in that related party under common control and considers such indirect interest in the VIE held by the related party under common control on a proportionate basis, rather than in its entirety. Transition is generally on a modified retrospective basis, with the cumulative effect adjusted to retained earnings at the beginning of the earliest period presented. The Company adopted ASU No. 2018-17 on January 1, 2020, with no transitional impact upon adoption.

Future Application of Accounting Standards

Income Tax Accounting—In December 2019, the FASB issued 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 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. ASU No. 2019-12 is effective January 1, 2021, with early adoption permitted in an interim period, to be applied to all provisions. The Company is currently evaluating the impact of this new guidance.

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. ASU No. 2020-01 is to be applied prospectively, effective January 1, 2021, with early adoption permitted in an interim period. The Company is currently evaluating the impact of this new guidance.

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.

3. Operating Real Estate

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

	September 30, 2020 (Unaudited)	December 31, 2019
Land	$ 236,036	$ 236,036
Land improvements	23,700	23,287
Buildings and improvements	1,466,252	1,551,113
Tenant improvements	16,041	14,642
Construction in progress	1,593	4,956
Furniture, fixtures and equipment	106,408	100,998
Subtotal	$ 1,850,030	$ 1,931,032
Less: Accumulated depreciation	(278,334)	(230,814)
Operating real estate, net	$ 1,571,696	$ 1,700,218

For the three and nine months ended September 30, 2020 depreciation expense was $15.5 million and $47.5 million, respectively. For the three and nine months ended September 30, 2019, depreciation expense was $15.7 million and $46.8 million, respectively.

Within the table above, buildings and improvements have been reduced by impairment totaling $148.7 million and $58.0 million as of September 30, 2020 and December 31, 2019, respectively. Impairment loss, as presented on the consolidated statements of operations, totaled $91.4 million and $10.1 million for the nine months ended September 30, 2020 and 2019, respectively. Refer to Note 2, "Summary of Significant Accounting Policies" for further discussion.

Net lease rental properties owned as of September 30, 2020 have current lease expirations ranging from 2022 to 2029, with certain tenant renewal rights. These net lease arrangements require the tenant to pay rent and substantially all the expenses of the leased property including maintenance, taxes, utilities and insurance. For certain properties, the tenants pay the Company, in addition to the contractual base rent, their pro rata share of real estate taxes and operating expenses. The Company's net lease agreements provide for periodic rental increases based on the greater of certain percentages or increase in the consumer price index.

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

4. Investments in Unconsolidated Ventures

All investments in unconsolidated ventures are accounted for under the equity method. The following tables present the Company's investments in unconsolidated ventures (dollars in thousands):

Portfolio	Acquisition Date	Ownership	Carrying Value September 30, 2020 (Unaudited)	Carrying Value December 31, 2019[1]
Eclipse	May-2014	5.6 %	$ 5,715	$ 9,483
Envoy[2]	Sep-2014	11.4 %	9	399
Griffin-American	Dec-2014	14.3 %	85,807	125,597
Espresso[3]	Jul-2015	36.7 %	—	—
Trilogy[4]	Dec-2015	23.2 %	138,726	133,361
Subtotal			$ 230,257	$ 268,840
Operator Platform[5]	Jul-2017	20.0 %	—	54
Total			$ 230,257	$ 268,894

(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, Griffin-American, 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) 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 the Company's ownership interest in the joint venture from approximately 29% to 23%.
(5) 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%. As a result of losses recorded by the joint venture, the Company's carrying value of its Solstice unconsolidated investment was reduced to zero in the third quarter of 2020.

Portfolio	Three Months Ended September 30, 2020			Three Months Ended September 30, 2019		
	Equity in Earnings (Losses)	Select Revenues and (Expenses), net[1]	Cash Distribution	Equity in Earnings (Losses)	Select Revenues and (Expenses), net[1]	Cash Distribution
Eclipse	$ (191)	$ (463)	$ —	$ 1,090	$ 750	$ 2,286
Envoy	—	—	198	—	—	—
Griffin-American	185	(2,273)	—	(3,626)	(6,234)	1,030
Espresso	60	(2,814)	—	(667)	(2,274)	—
Trilogy	(1,091)	(3,052)	—	156	(3,776)	1,451
Subtotal	$ (1,037)	$ (8,602)	$ 198	$ (3,047)	$ (11,534)	$ 4,767
Operator Platform[2]	(6)	—	—	10	—	—
Total	$ (1,043)	$ (8,602)	$ 198	$ (3,037)	$ (11,534)	$ 4,767

(1) Represents the net amount of the Company's proportionate share of select revenues and expenses, including: straight-line rental income (expense), (above)/below market lease and in-place lease amortization, (above)/below market debt and deferred financing costs amortization, depreciation and amortization expense, acquisition fees and transaction costs, loan loss reserves, liability extinguishment gains, debt extinguishment losses, impairment, as well as unrealized and realized gain (loss) from sales of real estate and investments.
(2) Represents the Company's investment in Solstice. During the three months ended September 30, 2020, the Company's unconsolidated investment in Solstice was reduced to zero. The Company did not recognize its proportionate share of losses from the joint venture totaling approximately $20,000.

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

	Nine Months Ended September 30, 2020			Nine Months Ended September 30, 2019		
Portfolio	Equity in Earnings (Losses)	Select Revenues and (Expenses), net[1]	Cash Distributions	Equity in Earnings (Losses)	Select Revenues and (Expenses), net[1]	Cash Distributions
Eclipse	$ (3,683)	$ (4,381)	$ 86	$ 758	$ (402)	$ 2,573
Envoy	—	—	390	96	(822)	4,339 [4]
Griffin-American	(37,905)	(44,729)	1,487	(7,654)	(16,046)	5,581
Espresso	(522)	(8,256)	—	(3,034)	(6,324)	—
Trilogy[2]	5,365	(10,404)	—	2,188	(10,433)	4,353
Subtotal	$ (36,745)	$ (67,770)	$ 1,963	$ (7,646)	$ (34,027)	$ 16,846
Operator Platform[3]	(54)	—	—	(20)	—	—
Total	$ (36,799)	$ (67,770)	$ 1,963	$ (7,666)	$ (34,027)	$ 16,846

(1) Represents the net amount of the Company's proportionate share of select revenues and expenses, including: straight-line rental income (expense), (above)/below market lease and in-place lease amortization, (above)/below market debt and deferred financing costs amortization, depreciation and amortization expense, acquisition fees and transaction costs, loan loss reserves, liability extinguishment gains, debt extinguishment losses, impairment, as well as unrealized and realized gain (loss) from sales of real estate and investments.
(2) For the nine months ended September 30, 2020 included in equity in earnings for the Trilogy joint venture is revenue recognized for federal COVID-19 provider relief funds totaling $30.7 million, of which the Company's proportionate share totaled $7.1 million.
(3) Represents the Company's investment in Solstice. During the three months ended September 30, 2020, the Company's unconsolidated investment in Solstice was reduced to zero. The Company did not recognize its proportionate share of losses from the joint venture totaling approximately $20,000.
(4) 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.

Summarized Financial Data

The combined balance sheets as of September 30, 2020 and December 31, 2019 and combined statements of operations for the three and nine months ended September 30, 2020 and 2019, for the Company's Griffin-American and Trilogy unconsolidated ventures are as follows (dollars in thousands):

	September 30, 2020 (Unaudited)	December 31, 2019		Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Assets							
Operating real estate, net	$ 3,360,236	$ 3,566,586	Total revenues	$ 315,560	$ 320,978	$ 986,221	$ 977,874
Other assets	1,106,302	1,053,433	Net income (loss)	$ (3,398)	$ (24,665)	$ (241,754)	$ (44,048)
Total assets	$ 4,466,538	$ 4,620,019					
Liabilities and equity							
Total liabilities	$ 3,359,633	$ 3,257,970					
Equity	1,106,905	1,362,049					
Total liabilities and equity	$ 4,466,538	$ 4,620,019					

5. Real Estate Debt Investments

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

		Carrying Value[1]				
Asset Type:	Principal Amount	September 30, 2020 (Unaudited)	December 31, 2019	Fixed Rate	Unlevered Current Yield	Final Maturity Date
Mezzanine loan[1]	$ 74,182	$ 55,038	$ 55,468	10.0 %	10.3 %	Jan 2021

(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 September 30, 2020 and December 31, 2019, the cumulative excess equity in losses included in the mezzanine loan carrying value were $19.1 million and $18.6 million, respectively.

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 September 30, 2020, the Company's debt investment was performing in accordance with the contractual terms of its governing documents. Although various defaults under leases and senior secured loans existed as of September 30, 2020, none of these defaults resulted in a default under the Company's debt investment as of September 30, 2020. 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 September 30, 2020, contractual debt service has been paid in accordance with contractual terms. The Company is in discussions with its borrower regarding the upcoming maturity of the debt investment.

For the nine months ended September 30, 2020, the mezzanine loan represented 100.0% 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):

				September 30, 2020 (Unaudited)		December 31, 2019	
	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	Feb 2021	LIBOR + 2.92%	$ 20,350	$ 20,334	$ 20,547	$ 20,500
Frisco, TX	Non-recourse	Mar 2021	LIBOR + 3.04%	18,882	18,867	19,170	19,127
Milford, OH	Non-recourse	Sep 2026	LIBOR + 2.68%	18,760	18,407	18,760	18,357
Rochester Portfolio							
Rochester, NY	Non-recourse	Feb 2025	4.25%	19,907	19,824	20,228	20,131
Rochester, NY[3]	Non-recourse	Aug 2027	LIBOR + 2.34%	101,224	100,352	101,224	100,267
Rochester, NY	Non-recourse	Aug 2021	LIBOR + 2.90%	12,800	12,493	12,800	12,232
Arbors Portfolio[4]							
Various locations	Non-recourse	Feb 2025	3.99%	87,756	86,920	89,026	88,020
Watermark Fountains Portfolio[5]							
Various locations	Non-recourse	Jun 2022	3.92%	388,680	387,492	392,269	390,508
Various locations	Non-recourse	Jun 2022	5.56%	73,714	73,406	74,208	73,750
Winterfell Portfolio[6]							
Various locations	Non-recourse	Jun 2025	4.17%	624,513	609,210	632,024	614,415
Avamere Portfolio[7]							
Various locations	Non-recourse	Feb 2027	4.66%	70,718	70,233	71,464	70,922
Subtotal mortgage notes payable, net				$ 1,437,304	$ 1,417,538	$ 1,451,720	$ 1,428,229
Other notes payable							
Oak Cottage							
Santa Barbara, CA	Non-recourse	Feb 2022	6.00%	3,914	3,915	3,693	3,693
Subtotal other notes payable, net				$ 3,914	$ 3,915	$ 3,693	$ 3,693
Total mortgage and other notes payable, net				$ 1,441,218	$ 1,421,453	$ 1,455,413	$ 1,431,922

(1) Floating rate borrowings are comprised of $172.0 million principal amount at 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) Comprised of seven individual mortgage notes payable secured by seven healthcare real estate properties, cross-collateralized and subject to cross-default.
(4) Comprised of four individual mortgage notes payable secured by four healthcare real estate properties, cross-collateralized and subject to cross-default.

(5) Includes $388.7 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 $73.7 million of principal, secured by seven healthcare real estate properties, cross-collateralized and subject to cross-default.
(6) Comprised of 32 individual mortgage notes payable secured by 32 healthcare real estate properties, cross-collateralized and subject to cross-default.
(7) Comprised 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):

October 1 to December 31, 2020	$	9,377
Years Ending December 31:		
2021		76,127
2022		466,725
2023		19,056
2024		19,778
Thereafter		850,155
Total	$	1,441,218

As of September 30, 2020, the tenant for the Arbors portfolio failed to remit rent timely and comply with other contractual terms of its lease agreement, which resulted in a default under the tenant's lease, which in turn, resulted in a default under the mortgage notes collateralized by the properties. The Company is currently in discussions with the tenant regarding the lease default.

In response to the operational challenges resulting from the COVID-19 pandemic, the Company entered into forbearance agreements effective May 1, 2020 to defer up to 90 days of 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 September 30, 2020. The deferred debt service must be repaid over the 12 months 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 on August 1, 2020 and the Company has resumed remitting debt service, together with the deferred debt service, on these mortgage notes payable. As a result, these borrowings remain in technical default and are subject to the terms of the forbearance agreements until all deferred debt service is repaid.

The Company entered into an additional forbearance agreement effective July 1, 2020 to defer up to 90 days of interest and 120 days of contractual principal payments for a mortgage note payable on a property within the Rochester portfolio. The forbearance agreement also temporarily waives financial covenants under the mortgage note, which the property has failed to maintain as of September 30, 2020. The outstanding principal amount of the mortgage note payable was $19.9 million as of September 30, 2020. The deferred debt service must be repaid over the 12 months following the forbearance period with no additional interest or penalties incurred by the Company, subject to satisfaction of certain conditions.

Line of Credit - Related Party

In October 2017, the Company obtained a revolving line of credit from an affiliate of Colony Capital, the Sponsor, for up to $15.0 million at an interest rate of 3.5% plus LIBOR (the "Sponsor Line"). The Sponsor Line had an initial one year term, with an extension option of six months.

In November 2017, the borrowing capacity under the Sponsor Line was increased to $35.0 million. In March 2018, the Sponsor Line maturity date was extended through December 2020, and in May 2019, the maturity date was further extended through December 2021. In July 2020, the maturity date was extended through December 2022.

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. Interest expense on the Company's consolidated statements of operations includes $0.3 million and $0.6 million related to the Sponsor Line for the three and nine months ended September 30, 2020, respectively.

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 December 2017, the advisory agreement was amended with changes to the asset management and acquisition fee structure as further described below. In June 2020, the advisory agreement was renewed for an additional one-year term commencing on June 30, 2020, with terms identical to those in effect through June 30, 2020, but for the elimination of disposition fees. On June 22, 2020, the advisory agreement was amended to remove disposition fees, effective June 30, 2020.

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, with $2.5 million per calendar quarter of such fee paid in shares of the Company's common stock at a price per share equal to the most recently published net asset value per share.

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 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. The Advisor has not received any incentive fees from the Company as of September 30, 2020.

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

For substantial assistance in connection with the sale of investments and based on the services provided, as determined by the Company's independent directors, the Advisor could have received a disposition fee of 2.0% of the contract sales price of each property sold and 1.0% of the contract sales price of each debt investment sold. The Company did not pay a disposition fee upon the maturity, prepayment, workout, modification or extension of a debt investment unless there was a corresponding fee paid by the borrower, in which case the disposition fee was the lesser of: (i) 1.0% of the principal amount of the debt investment prior to such transaction; or (ii) the amount of the fee paid by the borrower in connection with such transaction. If the Company took ownership of a property as a result of a workout or foreclosure of a debt investment, the Company paid a disposition fee upon the sale of such property. A disposition fee from the sale of an investment was generally expensed and included in asset management and other fees - related party in the Company's consolidated statements of operations. A disposition fee for a debt investment incurred in a transaction other than a sale was included in debt investments, net on the consolidated balance sheets and was amortized to interest income over the life of the investment using the effective interest method.

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, 2019	Nine Months Ended September 30, 2020		Due to Related Party as of September 30, 2020 (Unaudited)
			Incurred	Paid	
Fees to Advisor Entities[1]					
Asset management[2]	Asset management and other fees-related party	$ 1,477	$ 13,293	$ (13,293) [2]	$ 1,477
Reimbursements to Advisor Entities					
Operating costs[3]	General and administrative expenses	4,303	7,287	(9,183)	2,407
Total		$ 5,780	$ 20,580	$ (22,476)	$ 3,884

(1) Effective June 30, 2020, our Advisor no longer has the potential to receive a disposition fee in connection with the sale of real estate properties or debt investments. The Company did not incur any disposition fees during the nine months ended September 30, 2020, nor were any such fees outstanding as of September 30, 2020.
(2) Includes $7.5 million paid in shares of the Company's common stock.
(3) As of September 30, 2020, the Advisor did not have any unreimbursed operating costs which remained eligible to be allocated to the Company.

Pursuant to the advisory agreement, for the nine months ended September 30, 2020, the Company issued 1.2 million shares totaling $7.5 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 September 30, 2020, the Advisor, the Sponsor and their affiliates owned a total of 4.3 million shares or $26.9 million of the Company's common stock based on the Company's most recent estimated value per share. As of September 30, 2020, the Advisor, the Sponsor and their affiliates owned 1.9% 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 nine months ended September 30, 2020, the Company recognized property management fee expense of $3.8 million paid to Solstice related to the Winterfell portfolio.

The below table indicates the Company's investments for which Colony Capital 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	Colony Capital/ Formation Capital, LLC	May 2014	5.6%
Griffin-American	Colony Capital	December 2014	14.3%

In connection with the acquisition of the Griffin-American portfolio by NorthStar Realty, now a subsidiary of Colony Capital, and the Company, the Sponsor acquired a 43.0%, as adjusted, ownership interest in American Healthcare Investors, LLC ("AHI") and Mr. James F. Flaherty III, a partner of the Sponsor, acquired a 12.3% ownership interest in AHI. AHI is a healthcare-focused real estate investment management firm that co-sponsored and advised Griffin-American, until Griffin-American was acquired by the Company and NorthStar Realty.

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.

Origination of Mezzanine Loan

In July 2015, the Company originated a $75.0 million mezzanine loan to a subsidiary of Espresso, which bears interest at a fixed rate of 10.0% per year and matures in January 2021. 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. Pursuant to the Plan, as of September 30, 2020, the Company's independent directors were granted a total of 159,932 shares of restricted common stock for an aggregate $1.3 million, based on the share price on the date of each grant. The restricted stock granted prior to 2015 generally vested quarterly over four years and the restricted stock granted in and subsequent to 2015 generally vests quarterly over two years. However, the stock 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 Company recognized equity-based compensation expense of $45,625 and $45,000 for the three months ended September 30, 2020 and 2019, respectively and $123,292 and $135,500 for the nine months ended September 30, 2020 and 2019, respectively. Equity-based compensation expense is related to the issuance of restricted stock to the independent directors and is recorded in general and administrative expenses in the consolidated statements of operations. Unrecognized equity-based compensation for unvested shares totaled $0.2 million of September 30, 2020 and December 31, 2019, respectively. Unvested shares totaled 37,260 and 25,360 as of September 30, 2020 and December 31, 2019, respectively.

9. Stockholders' Equity

Common Stock

The Company stopped accepting subscriptions for the Follow-On Offering on December 17, 2015 and all of the shares initially registered for the Follow-On 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 in the Primary Offering.

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

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 nine months ended September 30, 2020, the Company has not issued shares of common stock pursuant to the DRP. From inception through September 30, 2020, the Company issued 25.7 million shares of common stock, generating gross offering proceeds of $232.6 million pursuant to the DRP.

Distributions

From inception through December 31, 2017, distributions to stockholders were declared quarterly by the board of directors of the Company and paid monthly based on a daily amount of $0.00184932 per share, equivalent to an annualized distribution amount of $0.675 per share of the Company's common stock.

During the year ended December 31, 2018, the Company's board of directors approved daily cash distributions of $0.000924658 per share of common stock, equivalent to an annualized distribution amount of $0.3375 per share.

The Company's board of directors approved daily cash distributions of $0.000924658 per share of common stock for the month ending January 31, 2019. Effective February 1, 2019, the Company's board of directors determined to suspend distributions in order to preserve capital and liquidity. No distributions were declared during the nine months ended September 30, 2020.

Distributions were generally paid to stockholders on the first business day of the month following the month for which the distribution was accrued.

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 nine months ended September 30, 2020, 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, 2019, therefore, it was not required to make distributions to its stockholders in 2019 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 a share repurchase program that enabled stockholders to sell their shares to the Company in limited circumstances (the "Share Repurchase Program"). 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 October 2018, the Company's board of directors approved an amended and restated Share Repurchase Program, under which the Company only repurchased shares in connection with the death or qualifying disability of a stockholder at a price equal to the lesser of the price paid for the shares, as adjusted for any stock dividends, combinations, splits, recapitalizations or any similar transactions, or the most recently published estimated value per share. The amended and restated Share Repurchase Program became effective October 29, 2018.

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.

For the nine months ended September 30, 2020, the Company repurchased 0.3 million shares of common stock for $2.0 million at an average price of $6.25 per share. For the year ended December 31, 2019, the Company repurchased 1.5 million shares of common stock for $10.7 million at an average price of $7.10 per share pursuant to the Share Repurchase Program.

The Company has funded repurchase requests received during the year 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 nine months ended September 30, 2020 and 2019 was de minimis.

Other

Other non-controlling interests represent third-party equity interests in ventures that are consolidated with the Company's financial statements. Net loss attributable to the other non-controlling interests was $0.2 million and $1.0 million for the three and nine months ended September 30, 2020, respectively. Net loss attributable to the other non-controlling interests was $0.1 million and $0.4 million for the three and nine months ended September 30, 2019, respectively.

11. Fair Value

Fair Value Measurement

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

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

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

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

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

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

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

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

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

Fair Value of Financial Instruments

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

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

	September 30, 2020 (Unaudited)			December 31, 2019		
	Principal Amount	Carrying Value	Fair Value	Principal Amount	Carrying Value	Fair Value
Financial assets:[1]						
Real estate debt investments, net	$ 74,182	$ 55,038	$ 74,182	$ 74,182	$ 55,468	$ 74,182
Financial liabilities:[1]						
Mortgage and other notes payable, net	$ 1,441,218	$ 1,421,453	$ 1,406,546	$ 1,455,413	$ 1,431,922	$ 1,450,876
Line of credit - related party	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):

	Nine Months Ended September 30, 2020 (Unaudited)		Year Ended December 31, 2019	
	Fair Value	Impairment Losses	Fair Value	Impairment Losses
Operating real estate, net	$ 109,262	$ 90,715	$ 27,450	$ 27,021
Assets held for sale	927	722	1,649	533

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 including changes in undiscounted future net cash flows expected to be generated by the properties and declines in operating performance. Fair value of impaired operating real estate was estimated based upon various approaches including discounted cash flow analysis using terminal capitalization rates ranging from 6.25% to 7.75% and discount rates ranging from 7.0% to 7.75%, 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 a tenant/operator.
- *Direct Investments - Operating* - Healthcare properties operated pursuant to management agreements with healthcare operators/managers.
- *Unconsolidated Investments* - Healthcare joint ventures, including properties operated under net leases or pursuant to management agreements with healthcare operators, in which the Company owns a minority interest.
- *Debt and Securities Investments* - Mortgage loans or mezzanine loans to owners of healthcare real estate and commercial mortgage backed securities backed primarily by loans secured by healthcare properties.
- *Corporate* - The corporate segment includes corporate level asset management and other 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 and securities investments.

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

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

				Nine Months Ended September 30, 2020	
Operator / Tenant		**Properties Under Management**	**Units Under Management[1]**	**Property and Other Revenues[2]**	**% of Total Property and Other Revenues**
Watermark Retirement Communities		30	5,265	$ 106,499	50.8 %
Solstice Senior Living	(3)	32	4,000	76,314	36.3 %
Avamere Health Services		5	453	13,496	6.4 %
Arcadia Management		4	572	7,961	3.8 %
Integral Senior Living	(3)	3	162	5,521	2.6 %
Senior Lifestyle Corporation	(4)	1	63	—	— %
Other	(5)	—	—	163	0.1 %
Total		75	10,515	$ 209,954	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) Tenant has failed to remit rental payments during the nine months ended September 30, 2020.
(5) Consists primarily of interest income earned on corporate-level cash accounts.

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

	Direct Investments					
Three Months Ended September 30, 2020	**Net Lease**	**Operating**	**Unconsolidated Investments**	**Debt and Securities**	**Corporate[1]**	**Total**
Property and other revenues	$ 8,225	$ 59,507	$ —	$ —	$ 23	$ 67,755
Interest income on debt investments	—	—	—	1,927	—	1,927
Real estate properties - operating expenses	—	(46,501)	—	—	—	(46,501)
Interest expense	(2,967)	(13,165)	—	—	(327)	(16,459)
Asset management and other fees - related party	—	—	—	—	(4,431)	(4,431)
General and administrative expenses	(562)	(82)	—	—	(2,802)	(3,446)
Depreciation and amortization	(3,722)	(12,223)	—	—	—	(15,945)
Equity in earnings (losses) of unconsolidated ventures	—	—	(1,043)	—	—	(1,043)
Income tax expense	—	(15)	—	—	—	(15)
Net income (loss)	$ 974	$ (12,479)	$ (1,043)	$ 1,927	$ (7,537)	$ (18,158)

(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 September 30, 2019	**Net Lease**	**Operating**	**Unconsolidated Investments**	**Debt and Securities**	**Corporate[1]**	**Total**
Property and other revenues	$ 8,204	$ 64,496	$ —	$ 10	$ 68	$ 72,778
Interest income on debt investments	—	—	—	1,946	—	1,946
Real estate properties - operating expenses	(5)	(45,354)	—	—	—	(45,359)
Interest expense	(3,025)	(14,193)	—	—	—	(17,218)
Transaction costs	—	(29)	—	—	—	(29)
Asset management and other fees - related party	—	—	—	—	(4,994)	(4,994)
General and administrative expenses	(47)	19	—	(10)	(2,769)	(2,807)
Depreciation and amortization	(3,595)	(12,569)	—	—	—	(16,164)
Realized gain (loss) on investments and other	—	204	—	—	—	204
Equity in earnings (losses) of unconsolidated ventures	—	—	(3,037)	—	—	(3,037)
Income tax expense	—	(17)	—	—	—	(17)
Net income (loss)	$ 1,532	$ (7,443)	$ (3,037)	$ 1,946	$ (7,695)	$ (14,697)

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

	Direct Investments					
Nine Months Ended September 30, 2020	**Net Lease**	**Operating**	**Unconsolidated Investments**	**Debt and Securities**	**Corporate[1]**	**Total**
Property and other revenues	$ 24,673	$ 185,118	$ —	$ —	$ 163	$ 209,954
Interest income on debt investments	—	—	—	5,738	—	5,738
Real estate properties - operating expenses	(13)	(137,517)	—	—	—	(137,530)
Interest expense	(8,879)	(40,089)	—	—	(623)	(49,591)
Transaction costs	—	(7)	—	—	—	(7)
Asset management and other fees - related party	—	—	—	—	(13,293)	(13,293)
General and administrative expenses	(667)	(182)	—	(19)	(7,895)	(8,763)
Depreciation and amortization	(11,123)	(37,806)	—	—	—	(48,929)
Impairment loss	(722)	(90,715)	—	—	—	(91,437)
Equity in earnings (losses) of unconsolidated ventures	—	—	(36,799)	—	—	(36,799)
Income tax expense	—	(43)	—	—	—	(43)
Net income (loss)	$ 3,269	$ (121,241)	$ (36,799)	$ 5,719	$ (21,648)	$ (170,700)

	Direct Investments					
Nine Months Ended September 30, 2019	**Net Lease**	**Operating**	**Unconsolidated Investments**	**Debt and Securities**	**Corporate[1]**	**Total**
Property and other revenues	$ 25,203	$ 194,391	$ —	$ 29	$ 648	$ 220,271
Interest income on debt investments	—	—	—	5,771	—	5,771
Real estate properties - operating expenses	(5)	(135,208)	—	—	—	(135,213)
Interest expense	(9,424)	(42,382)	—	—	(102)	(51,908)
Transaction costs	—	(105)	—	—	—	(105)
Asset management and other fees - related party	—	—	—	—	(14,983)	(14,983)
General and administrative expenses	(159)	(17)	—	(28)	(8,006)	(8,210)
Depreciation and amortization	(10,657)	(43,868)	—	—	—	(54,525)
Impairment loss	(146)	(10,000)	—	—	—	(10,146)
Realized gain (loss) on investments and other	5,871	431	—	—	(376)	5,926
Equity in earnings (losses) of unconsolidated ventures	—	—	(7,666)	—	—	(7,666)
Income tax benefit (expense)	—	(38)	—	—	—	(38)
Net income (loss)	$ 10,683	$ (36,796)	$ (7,666)	$ 5,772	$ (22,819)	$ (50,826)

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

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

	Direct Investments					
Total Assets:	**Net Lease**	**Operating**	**Unconsolidated Investments**	**Debt and Securities**	**Corporate[1]**	**Total**
September 30, 2020	$ 353,283	$1,304,172	$ 230,254	$ 55,649	$ 64,604	$ 2,007,962
December 31, 2019	365,789	1,420,023	268,892	56,099	30,404	2,141,207

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

13. Commitments and Contingencies

As of September 30, 2020, 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 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

No material events have occurred subsequent to September 30, 2020 through the issuance of the consolidated financial statements.

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 were formed to acquire, originate and asset manage a diversified portfolio of equity, debt and securities investments in healthcare real estate, directly or through joint ventures, with a focus on the mid-acuity senior housing sector, which we define as assisted living, memory care, skilled nursing and independent living facilities and continuing care retirement communities. We also invest in other healthcare property types, including medical office buildings, hospitals, rehabilitation facilities and ancillary healthcare services businesses. Our investments are predominantly in the United States, but we also selectively make international investments.

We were formed in October 2010 as a Maryland corporation and commenced operations in February 2013. We elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, commencing with the taxable year ended December 31, 2013. We conduct our operations so as to continue to qualify as a REIT for U.S. federal income tax purposes.

We are externally managed and have no employees. We are sponsored by Colony Capital, Inc. (NYSE: CLNY), or Colony Capital or our Sponsor, a leading global investment management firm. Colony Capital manages capital on behalf of its stockholders, as well as institutional and retail investors in private funds, non-traded and traded REITs and registered investment companies, which we refer to collectively as the Managed Companies. As of September 30, 2020, our Sponsor had approximately $46.8 billion of assets under management, including Colony Capital's balance sheet investments and third-party managed investments. Our advisor, CNI NSHC Advisors, LLC, or our Advisor, is a subsidiary of Colony Capital and manages our day-to-day operations pursuant to an advisory agreement.

From inception through September 30, 2020, 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.

2020 Significant Developments

COVID-19 Update

Beginning in March 2020, the coronavirus 2019, or COVID-19, pandemic began to impact NorthStar Healthcare and its communities. As residents of our communities are older and often suffer from chronic medical conditions, they are at disproportionately higher risk of hospitalization and adverse outcomes if they contract COVID-19. As such, our first priority during this time has been, and continues to be, the health and safety of the residents and staff at our communities. We remain focused on supporting our operating partners during this unprecedented time. 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.

Cases

As of November 12, 2020, as reported by our operators and managers, of the 75 communities in our direct investments, approximately 68% have experienced confirmed cases of COVID-19. In addition, as of November 12, 2020, as reported by our operators and partners, of the 429 communities in our unconsolidated investments, which excludes MOBs and hospitals, approximately 74% have experienced confirmed cases of COVID-19. In some instances, confirmed cases COVID-19 have resulted in deaths of residents and staff at the communities within our direct and unconsolidated investments. The incidence of confirmed cases in our portfolio may continue and could accelerate depending on the duration, scope and depth of the COVID-19 pandemic.

Operating Performance

The COVID-19 pandemic has affected the fundamentals of our business in the following ways:

- Our occupancy across our direct investments was 74.8% as of November 12, 2020, a 6.3% decline since March 31, 2020. We anticipate that our occupancy will continue to be impacted by restrictions on admissions and limited inquiries and tours, which have significantly decreased the number of move-ins at our direct investments. We may also continue to experience increased resident illnesses and move-outs due to the pandemic. Our direct operating

investments have not yet experienced any significant issues collecting rents or other fees from residents as a result of COVID-19.

- Operating costs have continued to rise as operators take action to protect residents and staff. In particular, operators are paying a premium for labor in many markets, particularly in communities that have been severely impacted by COVID-19. In addition, personal protective equipment continues to be costly to source during the pandemic. For the nine months ended September 30, 2020, additional operating expenses incurred as a result of the COVID-19 pandemic totaled approximately $7.1 million for the communities in our direct operating investments. We expect these expenses to continue to be incurred.

- During the three months ended June 30, 2020, we recorded impairment losses totaling $91.4 million on our direct investments. During the three months ended September 30, 2020, no impairment losses were recorded on our direct investments. Further, the underlying joint ventures of our unconsolidated ventures have recorded impairments, of which our proportionate share totaled $37.8 million for the nine months ended September 30, 2020. Impairment losses have resulted from shortened holding period assumptions as well as lower projected future cash flows and market values as a result of the economic effects of COVID-19.

Liquidity

We have taken a number of steps to improve liquidity and preserve flexibility in light of the uncertainty surrounding the financial impact of the COVID-19 pandemic.

- In April 2020, we borrowed $35.0 million under our revolving line of credit from an affiliate of our Sponsor, or the Sponsor Line.

- Effective April 30, 2020, we suspended all repurchases of shares under our share repurchase program, or our Share Repurchase Program.

- Effective May 1, 2020, we entered into forbearance agreements and deferred 90 days of contractual debt service for borrowings on properties within the Aqua, Fountains, Arbors, Rochester and Winterfell portfolios. The aggregate outstanding principal amount of these borrowings totaled $1.3 billion as of September 30, 2020. The deferred debt service must be repaid over the 12 months following the forbearance period with no additional interest or penalties incurred, subject to satisfaction of certain conditions. As of November 12, 2020, deferred debt service totaled $9.8 million.

- Further, effective July 1, 2020, we entered into a forbearance agreement to defer up to 90 days of interest payments and 120 days of principal payments and temporarily waive financial covenants under the mortgage note for a mortgage note payable on a property within the Rochester portfolio. The outstanding principal amount of the mortgage note payable totaled $19.9 million as of September 30, 2020. The deferred debt service must be repaid over the 12 months following the forbearance period with no additional interest or penalties incurred, subject to satisfaction of certain conditions. As of November 12, 2020, deferred debt service totaled $0.5 million.

- We continue to limit capital expenditures of our operating real estate to life safety and essential projects and selectively approve additional improvements.

We expect that these effects of the pandemic will continue to materially impact revenues, expenses and cash flow generated by both our operating and net lease direct investments, as well as our unconsolidated investments. For additional information on the potential impact of COVID-19 to our operations, refer to "—Liquidity and Capital Resources."

If a general economic downturn resulting from efforts to contain COVID-19 persists over an extended period of time, this could have a prolonged negative impact on our financial condition and results of operations. At this time, as the extent and duration of the increasingly broad effects of COVID-19 on the global economy remain unclear, it is difficult to assess and estimate the impact on our results of operations with any meaningful precision. 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. We will continue to monitor the progression of COVID-19 and reassess its effects on our results of operations and recoverability in value across our assets as conditions change.

Performance Summary for the Three Months Ended September 30, 2020 as Compared to the Three Months Ended June 30, 2020

On a same store basis, rental and resident fee income, net of property operating expenses, of our direct operating investments decreased to $12.4 million for the three months ended September 30, 2020 as compared to $15.7 million for the three months ended June 30, 2020. This was primarily due to lower resident fee and rental income resulting from lower occupancy due to the aforementioned effects of COVID-19.

During the three months ended September 30, 2020, our direct operating investments' weighted average resident occupancy was 75.9% as compared to 78.0% for the three months ended June 30, 2020.

- Our operating portfolios managed by Watermark Retirement Communities had an overall average occupancy of 75.1% for the three months ended September 30, 2020, a decrease from 78.3% for the three months ended June 30, 2020.
- Our Winterfell portfolio's average occupancy was 76.2% for the three months ended September 30, 2020, a decrease from 77.0% for the three months ended June 30, 2020.

Overall, our unconsolidated investment portfolios experienced similar operational challenges presented by the COVID-19 pandemic as our direct operating investments, which resulted in a decrease in earnings for the three months ended September 30, 2020 as compared to the three months ended June 30, 2020.

Distributions from our unconsolidated investments continued to be limited by reinvestment and development in the Trilogy and Griffin-American joint ventures and working capital needs for the Espresso joint venture, which negatively impacted our liquidity position. The impact of COVID-19 will continue to impact the ability of our unconsolidated ventures to make distributions to partners in the future and at this time, we do not anticipate receiving distributions for the remainder of 2020.

For additional information on financial results, refer to "—Results of Operations."

Our Investments

We have invested in independent living facilities, or ILFs, assisted living facilities, or ALFs, memory care facilities, or MCFs, and continuing care retirement communities, or CCRCs, which we collectively refer to as senior 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 a tenant/operator.
- Direct Investments - Operating - Healthcare properties operated pursuant to management agreements with healthcare operators/managers.
- Unconsolidated Investments - Healthcare joint ventures, including properties operated under net leases or pursuant to management agreements with healthcare operators, in which we own a minority interest.
- Debt and Securities Investments - Mortgage loans or mezzanine loans to owners of healthcare real estate and commercial mortgage backed securities, or CMBS, backed primarily by loans secured by healthcare properties. As of September 30, 2020, we had one mezzanine loan.

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."

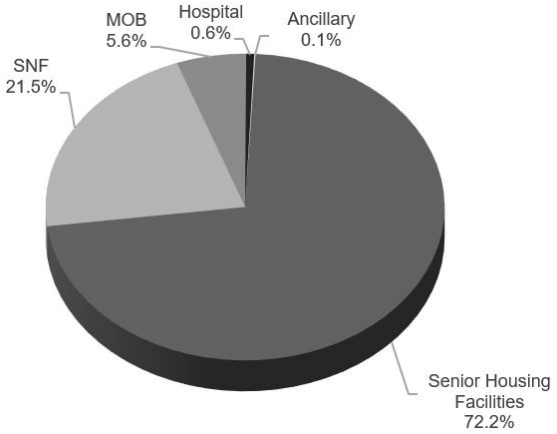
The following table presents a summary of investments as of September 30, 2020 (dollars in thousands):

		Properties[1][2]						
Investment Type / Portfolio	**Amount[3]**	**Senior 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%
Peregrine	10,000	1	—	—	—	1	Southeast	100.0%
Subtotal	$ 425,661	11	—	—	—	11		
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	116,216	5	—	—	—	5	West/Southwest/Midwest	97.0%
Avamere	99,438	5	—	—	—	5	Northwest	100.0%
Oak Cottage	19,427	1	—	—	—	1	West	100.0%
Kansas City	15,000	2	—	—	—	2	Midwest	100.0%
Subtotal	$ 1,731,498	64	—	—	—	64		
Unconsolidated Investments								
Griffin-American	$ 454,154	92	108	40	9	249	Various	14.3%
Trilogy[5]	346,219	9	—	67	—	76	Various	23.2%
Espresso	317,166	6	—	148	—	154	Various	36.7%
Eclipse	50,437	44	—	23	—	67	Various	5.6%
Solstice[6]	—	—	—	—	—	—	Various	20.0%
Subtotal	$ 1,167,976	151	108	278	9	546		
Debt and Securities Investments								
Mezzanine Loan[7]	$ 74,182	—	—	—	—	—		
Total Investments	$ 3,399,317	226	108	278	9	621		

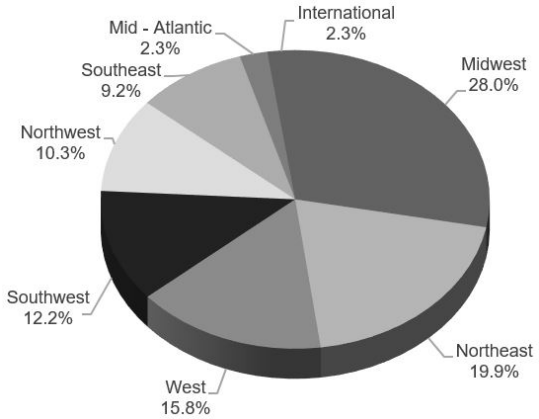
(1) Classification based on predominant services provided, but may include other services.
(2) Excludes properties held for sale.
(3) Based on cost for real estate equity investments, which includes purchase price allocations related to net intangibles, deferred costs, other assets, if any, and adjusted 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, or the Remainder Interests.
(5) Includes institutional pharmacy, therapy businesses and lease purchase buy-out options in connection with the Trilogy investment, which are not subject to property count.
(6) Represents our investment in Solstice Senior Living, LLC, or Solstice, the manager of the Winterfell portfolio. Solstice is a joint venture between affiliates of Integral Senior Living, LLC, or ISL, a management company of 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 September 30, 2020:

- *Senior Housing.* We define senior housing to include ILFs, ALFs, MCFs and CCRCs, as described in further detail below. Revenues generated by senior 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 single tenants or 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 78.4% for the nine months ended September 30, 2020.

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 tenant 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 three operators. The remaining lease term for each tenant as of September 30, 2020 is as follows:

Tenant	Properties Leased	Remaining Lease Term (Years)
Watermark Retirement Communities	6	1.4
Arcadia Management	4 [(1)]	9.0
Senior Lifestyle Corporation	1	[(2)]

(1) Tenant has failed to remit rent timely and comply with other contractual terms of its lease agreement, which resulted in a default under the tenant's lease as of September 30, 2020.
(2) Tenant is in default under its lease.

Operators and Tenants

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

Operator / Tenant		Properties Under Management	Units Under Management[1]	Nine Months Ended September 30, 2020 Property and Other Revenues[2]	Nine Months Ended September 30, 2020 % of Total Property and Other Revenues
Watermark Retirement Communities		30	5,265	$ 106,499	50.8 %
Solstice Senior Living	(3)	32	4,000	76,314	36.3 %
Avamere Health Services		5	453	13,496	6.4 %
Arcadia Management		4	572	7,961	3.8 %
Integral Senior Living	(3)	3	162	5,521	2.6 %
Senior Lifestyle Corporation	(4)	1	63	—	— %
Other	(5)	—	—	163	0.1 %
Total		75	10,515	$ 209,954	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) Tenant has failed to remit rental payments during the nine months ended September 30, 2020.
(5) 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.

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 September 30, 2020[1] Senior Housing Facilities	MOB	SNF	Hospitals	Total
Eclipse	Colony Capital/ Formation Capital, LLC	May-2014	5.6 %	$ 50,437	$ 23,400	44	—	23	—	67
Griffin-American	Colony Capital	Dec-2014	14.3 %	454,154	243,544	92	108	40	9	249
Espresso	Formation Capital, LLC/ Safanad Management Limited	Jul-2015	36.7 %	317,166	55,146	6	—	148	—	154
Trilogy[4]	Griffin-American Healthcare REIT III & IV /Management Team of Trilogy Investors, LLC	Dec-2015	23.2 %	346,219	189,032	9	—	67	—	76
Subtotal				$ 1,167,976	$ 511,122	151	108	278	9	546
Solstice		Jul-2017	20.0 %	—	2	—	—	—	—	—
Total				$ 1,167,976	$ 511,124	151	108	278	9	546

(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 September 30, 2020.
(4) In October 2018, we sold 20.0% of our ownership interest in the Trilogy joint venture, which reduced our ownership interest in the joint venture from approximately 29% to 23%.

- *Eclipse.* Portfolio of SNFs and ALFs leased to, or managed by, a variety of different operators across the United States. Our Sponsor and other minority partners and Formation own 86.4% and 8.0% of this portfolio, respectively.
- *Griffin-American.* 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 six sub-portfolios and currently leased to nine 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 and Securities Investments Overview" 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 and Securities Investments Overview

Our investments in real estate debt secured by healthcare facilities consisted of one mezzanine loan, which matures on January 30, 2021. 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 September 30, 2020 (dollars in thousands):

Investment Type:	Count	Principal Amount	Carrying Value[2]	Fixed Rate	Unleveraged Current Yield	Final Maturity Date
Espresso Mezzanine loan[1]	1	$ 74,182	$ 55,038	10.0 %	10.3 %	Jan 2021

(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 September 30, 2020, the cumulative excess equity in losses included in our mezzanine loan carrying value was $19.1 million.

As of September 30, 2020, our debt investment was performing in accordance with the contractual terms of its governing documents. Although various defaults under leases and senior secured loans existed as of September 30, 2020, none of these defaults resulted in a default under our debt investment as of September 30, 2020. As of November 12, 2020, contractual debt service on the Espresso mezzanine loan has been paid in accordance with contractual terms. We are in discussions with the borrower regarding the near-term maturity of the debt investment.

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 selective dispositions of assets in connection with strategic repositioning of assets or otherwise where we believe the disposition will achieve a desired return or opportunities exist to enhance overall returns or improve our liquidity position. As the healthcare

industry evolves, we will continue to assess the need for strategic asset repositioning, including evaluating assets, operators and markets to position our portfolio for optimal performance.

- *Maintain a Diversified Portfolio*. We believe that mid-acuity senior housing facilities provide an opportunity to generate risk-adjusted returns and benefit from positive future demographic trends. In addition, we believe that maintaining a balanced portfolio of assets diversified by investment type, geographic location, asset type, revenue source and operating model may mitigate the risk that any single factor or event could materially harm our business. Portfolio diversification also enhances the reliability of our cash flows by reducing our exposure to single-state regulatory or reimbursement changes, regional climate events and local economic downturns.

- *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 an asset management team, 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 team is 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 team seeks to identify strategic development opportunities for our existing and future 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 team engages in frequent review and dialogue with operators/managers/borrowers/third party advisors and periodic inspections of our owned properties and collateral. In addition, our Advisor's asset management team considers 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.

Sources of Operating Revenues and Cash Flows

We generate revenues from resident fees, rental income and net interest income. Resident fee income from our senior 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. Net 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.

Profitability and Performance Metrics

We calculate Funds from Operations, or FFO, and Modified Funds from Operations, or MFFO (see "Non-GAAP Financial Measures—Funds from Operations and Modified Funds from Operations" for a description of these metrics) to evaluate the profitability and performance of our business.

Outlook and Recent Trends

COVID-19

The healthcare real estate sector, which includes hospitals, skilled nursing, assisted living, and congregate living communities, has been significantly impacted by the effects of COVID-19, while continuing to operate during the pandemic. The Centers for Disease Control and Prevention has stated that older adults are at a higher risk for serious illness from COVID-19 and healthcare communities have continued to care for those most affected by COVID-19 amidst challenges sourcing materials and

resources. Operating results have been, and will continue to be impacted to the extent that the virus' continued spread reduces occupancy, results in quarantines for residents and/or bans on admissions, reduces the ability to continue to obtain necessary goods and provide adequate staffing or increases the cost burdens faced by operators.

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.

In April 2020, the Center for Medicare and Medicaid Services announced the distribution of $30 billion in funds to Medicare providers based upon their 2019 Medicare fee for service revenues. In addition, the Department of Health and Human Services authorized $20 billion of additional funding for providers. While these funds most significantly impact our 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.

The extent to which COVID-19 continues to impact the healthcare real estate sector will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including, but not limited to, the duration of the outbreak, the availability of a vaccine, new information that may emerge concerning the severity of COVID-19 and the actions taken to contain COVID-19 or treat its impact. Guidelines for easing social distancing and shelter-in-place regulations will further impact how the industry will resume and trend back to operating without restrictions. The healthcare sector is expected to be the last to resume normal operations, including allowing normal visitation, touring of the communities, in an effort to protect the most vulnerable. Federal and state government plans may shift through the coming months as guidelines are very specific and may be unpredictable if the outbreak surges again.

Healthcare Real Estate

Investing in and lending to the healthcare real estate sector requires an in-depth understanding of the specialized nature of healthcare facility operations and the healthcare regulatory environment. Owners and operators of senior housing facilities and other healthcare properties may benefit from demographic and economic trends, specifically the aging of the United States population whereby Americans aged 65 years old and older are expected to increase from 49.2 million in 2016 to 78.0 million in 2035 (source: U.S. Census Bureau 2017 National Population Projections). As a result of these demographic trends, healthcare spending in the U.S. 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: Centers for Medicare and Medicaid Services, or CMS). As healthcare costs increase, insurers, individuals and the U.S. government are pursuing lower cost options for healthcare. Senior housing facilities, such as ALFs, MCFs, SNFs and ILFs, 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. The growth in total demand for healthcare, cost constraints, new regulations, broad U.S. demographic changes and the shift towards cost effective community-based settings is resulting in dynamic changes to the healthcare delivery system.

Notwithstanding the demographics and spending growth, economic and healthcare market uncertainty, development, and competitive pressures have had a negative impact, weakening the market's fundamentals and ultimately reducing operating income for tenants and operators. During the third quarter of 2020, the industry seniors housing occupancy averaged 82.1%, down 56 basis points as compared to the first quarter of 2020 (source: The National Investment Centers for Senior Housing & Care, or NIC). Seniors housing under construction as a share of inventory decreased to 5.6% in the third quarter of 2020, compared to a peak of 7.7% in the fourth quarter of 2017 (source: NIC). Further, a tight labor market and competition to attract quality staff continues to drive increased wages and personnel costs, resulting in lower margins. To the extent that occupancy and market rental rates decline, property-level cash flow could be negatively affected and decreased cash flow, in turn, is expected to impact the value of underlying properties.

Our SNF operators receive a majority of their revenues from governmental payors, primarily Medicare and Medicaid. Changes in reimbursement rates and limits on the scope of services reimbursed to SNFs could have a material impact on a SNF operator's liquidity and financial condition. SNF operators are currently facing various operational, reimbursement, legal and regulatory challenges due to, among other things, 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. 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 occupancies and declining operating margins.

At this time, as the extent and duration of the increasingly broad effects of COVID-19 on the global economy remain unclear, it is difficult to assess the impact on the healthcare real estate sector, but it may include sustained industry declines in resident occupancy and operating cash flows, compressed operating margins and a stressed market affecting healthcare real estate values in general.

Critical Accounting Policies

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. For critical 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."

Recent Accounting Pronouncements

For recent accounting pronouncements, refer to Note 2, "Summary of Significant Accounting Policies" in our accompanying consolidated financial statements included in Part I, Item 1. "Financial Statements."

Impairment

Our investments are reviewed on a quarterly basis, or more frequently as necessary, to assess whether there are any indicators that the value of our investments may be impaired or that carrying value may not be recoverable. In conducting these reviews, we consider macroeconomic factors, including healthcare sector conditions, together with asset and market specific circumstance, among other factors. To the extent an impairment has occurred, the loss will be measured as compared to the carrying amount of the investment. An allowance for a doubtful account for a tenant/operator/resident receivable is established based on a periodic review of aged receivables resulting from estimated losses due to the inability of tenant/operator/resident to make required rent and other payments contractually due. Additionally, we establish, on a current basis, an allowance for future operator/tenant credit losses on unbilled rents receivable based upon an evaluation of the collectability of such amounts.

During the nine months ended September 30, 2020, we recorded impairment losses totaling $91.4 million on our operating real estate and held for sale investments. Impairment losses recorded during the nine months ended September 30, 2020 include the following:

- Winterfell Portfolio. Impairment losses totaled $70.8 million for eight independent living facilities as a result of sustained declines in occupancy and decreased operating margins.
- Aqua Portfolio. Impairment losses totaled $19.9 million for a facility that has sustained poor performance, declines in occupancy and has been significantly impacted by the effects of COVID-19.
- Peregrine Portfolio. Impairment losses totaled $0.7 million to reflect an updated net realizable value for a facility previously designated as held for sale.

As of December 31, 2019, we had recorded impairment losses totaling $58.0 million for operating real estate that we continue to hold as of September 30, 2020. Refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, for additional information regarding impairment recorded in prior years.

During the nine months ended September 30, 2020, we did not impair any of our investments in unconsolidated ventures, however, our underlying joint ventures have recorded impairments and reserves on properties in their respective portfolios, which have been recognized through our equity in earnings (losses), of which our proportionate share totaled $37.8 million. Our proportionate share of impairment losses recorded by our underlying joint ventures during the nine months ended September 30, 2020 include the following:

- Griffin-American Portfolio. Impairment losses totaled $34.1 million. Operating real estate impairment resulted from shortened holding period assumptions and lower projected future cash flows and market values as a result of the economic effects of COVID-19.
- Eclipse Portfolio. Impairment losses totaled $3.1 million. Operating real estate impairment resulted from lower projected market values as a result of the economic effects of COVID-19.
- Trilogy Portfolio. Impairment losses totaled $0.6 million.

Due to uncertainties over the extent and duration of the economic fallout from 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 actual impact

of COVID-19 will depend on many factors beyond our control and knowledge, the resulting effect on impairment of our operating real estate and investments in unconsolidated ventures may materially differ from our current expectations and further impairment charges may be recorded in the future.

Results of Operations

Impact of COVID-19

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.

Most of these COVID-19 effects on our business began significantly impacting our results of operations during the three months ended June 30, 2020, and we anticipate the significant effects to continue in future periods. If a general economic downturn resulting from efforts to contain COVID-19 persists over an extended period of time, this could have a prolonged negative impact on our financial condition and results of operations. We continue to monitor the progression of COVID-19 and its effects on our results of operations and recoverability in value across our assets as conditions change.

Comparison of the Three Months Ended September 30, 2020 to September 30, 2019 (dollars in thousands):

	Three Months Ended September 30,		Increase (Decrease)	
	2020	2019	Amount	%
Property and other revenues				
Resident fee income	$ 28,006	$ 32,283	$ (4,277)	(13.2)%
Rental income	39,114	40,410	(1,296)	(3.2)%
Other revenue	635	85	550	647.1 %
Total property and other revenues	67,755	72,778	(5,023)	(6.9)%
Interest income				
Interest income on debt investments	1,927	1,946	(19)	(1.0)%
Expenses				
Real estate properties - operating expenses	46,501	45,359	1,142	2.5 %
Interest expense	16,459	17,218	(759)	(4.4)%
Transaction costs	—	29	(29)	(100.0)%
Asset management and other fees-related party	4,431	4,994	(563)	(11.3)%
General and administrative expenses	3,446	2,807	639	22.8 %
Depreciation and amortization	15,945	16,164	(219)	(1.4)%
Impairment loss	—	—	—	NA
Total expenses	86,782	86,571	211	0.2 %
Realized gain (loss) on investments and other	—	204	(204)	(100.0)%
Equity in earnings (losses) of unconsolidated ventures	(1,043)	(3,037)	1,994	(65.7)%
Income tax expense	(15)	(17)	2	(11.8)%
Net income (loss)	$ (18,158)	$ (14,697)	$ (3,461)	23.5 %

Revenues

Resident Fee Income

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

	Three Months Ended September 30,		Increase (Decrease)	
	2020	2019	Amount	%
Same store ALF/MCF/CCRC properties (placed in service - 2018 and prior)	$ 28,006	$ 32,283	$ (4,277)	(13.2)%

On a same store basis, resident fee income decreased $4.3 million primarily as a result of lower occupancy at our ALFs, MCFs and CCRCs. The effects of the COVID-19 pandemic have resulted in limited inquiries and tours, which have significantly decreased the number of move-ins at our facilities, along with an increased number of move-outs.

Rental Income

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

	Three Months Ended September 30,		Increase (Decrease)	
	2020	2019	Amount	%
Same store ILF properties (placed in service - 2018 and prior)	$ 30,889	$ 32,206	$ (1,317)	(4.1)%
Same store net lease properties (placed in service - 2018 and prior)	8,225	8,204	21	0.3 %
Total rental income	$ 39,114	$ 40,410	$ (1,296)	(3.2)%

Rental income decreased $1.3 million primarily due to overall decreases in occupancy at our ILFs. The effects of the COVID-19 pandemic have resulted in limited inquiries and tours, which have significantly decreased the number of move-ins at our facilities, along with an increased number of move-outs.

Effective June 1, 2020, we granted a lease concession to the tenant of our Fountains net lease portfolio. The concession allowed the tenant to defer a portion of contractual rent payments for a 90-day period, with full contractual rent to be repaid over the 12 months following the concession period. The amount of the deferred rental payments under the lease concession totaled $3.9 million. The lease concession period ended on August 31, 2020 and the tenant has resumed remitting contractual rent payments, including amounts related to deferred rent granted under the lease concession. As there has not been substantive changes to the original lease or changes in total cash flows, the concession will not be treated as a lease modification and we will continue to recognize lease income and receivables under the original terms of the lease.

Other Revenue

Other revenue for the three months ended September 30, 2020 primarily comprised of federal COVID-19 provider relief funds received and recognized by properties in our Avamere, Fountains and Kansas City portfolios. For the three months ended September 30, 2019, other revenue primarily comprised of interest earned on uninvested cash.

Interest Income on Debt Investments

Interest income on debt investments for the three months ended September 30, 2020 totaling $1.9 million was comparable to interest income on debt investments recognized during three months ended September 30, 2019.

Expenses

Real Estate Properties - Operating Expenses

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

	Three Months Ended September 30,		Increase (Decrease)	
	2020	2019	Amount	%
Same store (placed in service - 2018 and prior)				
ALF/MCF/CCRC properties	$ 24,014	$ 23,963	$ 51	0.2 %
ILF properties	22,487	21,391	1,096	5.1 %
Net lease properties	—	5	(5)	(100.0)%
Total property operating expenses	$ 46,501	$ 45,359	$ 1,142	2.5 %

Overall, on a same store basis, real estate property - operating expenses, increased $1.1 million for the three months ended September 30, 2020 as compared to the three months ended September 30, 2019.

The increase in operating expenses is primarily attributable to the actions taken by our operators to protect residents and staff from COVID-19. In particular, operators are paying a premium for labor in many markets, particularly in communities that have been severely impacted by COVID-19. In addition, personal protective equipment continues to be costly to source during the pandemic. These costs were partially offset by lower repairs and maintenance expenses as operators minimized all non-essential projects across our direct investment operating portfolio.

Interest Expense

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

	Three Months Ended September 30,		Increase (Decrease)	
	2020	2019	Amount	%
Same store (placed in service - 2018 and prior)				
ALF/MCF/CCRC properties	$ 4,689	$ 5,187	$ (498)	(9.6)%
ILF properties	8,476	9,006	(530)	(5.9)%
Net lease properties	2,967	3,025	(58)	(1.9)%
Corporate	327	—	327	100.0 %
Total interest expense	$ 16,459	$ 17,218	$ (759)	(4.4)%

Interest expense decreased $0.8 million as a result of lower mortgage notes balances during the three months ended September 30, 2020 due to continued principal amortization and loan payoffs, in addition to lower LIBOR, which has reduced interest expense on our floating rate debt. Interest expense was recognized and accrued for borrowings with deferred payments under forbearance agreements. Corporate interest expense represents interest resulting from the borrowings under our Sponsor Line.

Transaction Costs

There were no transaction costs incurred for the three months ended September 30, 2020. Transaction costs for the three months ended September 30, 2019 were primarily residual costs incurred for the Rochester operator license transfer.

Asset Management and Other Fees - Related Party

Our Advisor receives a monthly asset management fee equal to one-twelfth of 1.5% of our most recently published aggregate estimated net asset value. Asset management and other fees - related party decreased $0.6 million as a result of the declining estimated net asset value year over year.

General and Administrative Expenses

General and administrative expenses increased $0.6 million, primarily as a result of non-operating compensation costs incurred for a property within the Fountains net lease portfolio during the three months ended September 30, 2020. The increase was partially offset by lower direct corporate expenses, including legal, accounting and other professional fees, incurred during the three months ended September 30, 2020 as compared to the three months ended September 30, 2019.

Depreciation and Amortization

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

	Three Months Ended September 30,		Increase (Decrease)	
	2020	2019	Amount	%
Same store (placed in service - 2018 and prior)				
ALF/MCF/CCRC properties	$ 4,966	$ 4,983	$ (17)	(0.3)%
ILF properties	7,257	7,586	(329)	(4.3)%
Net lease properties	3,722	3,595	127	3.5 %
Total depreciation and amortization	$ 15,945	$ 16,164	$ (219)	(1.4)%

Depreciation and amortization expense decreased $0.2 million, primarily due to impairments recognized during the second quarter of 2020 for properties in the Winterfell and Aqua portfolios, which resulted in reduced building depreciation. The decrease was partially offset by continued depreciation of newly completed improvements for properties across our direct operating investment portfolios.

Realized Gain (Loss) on Investments and Other

We did not recognize any realized gains (losses) during the three months ended September 30, 2020. During the three months ended September 30, 2019, realized gains of $0.2 million related to the sale of a Remainder Interest unit within the Watermark Fountains portfolio.

Equity in Earnings (Losses) of Unconsolidated Ventures

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

	Three Months Ended September 30,									
	2020	2019	2020	2019	2020	2019			2020	2019
Portfolio	Equity in Earnings (Losses)		Select Revenues and (Expenses), net[1]		Equity in Earnings, less Select Revenues and Expenses		Increase (Decrease)		Cash Distributions	
Eclipse	$ (191)	$ 1,090	$ (463)	$ 750	$ 272	$ 340	$ (68)	(20.0)%	$ —	$ 2,286
Envoy	—	—	—	—	—	—	—	— %	198	—
Griffin-American	185	(3,626)	(2,273)	(6,234)	2,458	2,608	(150)	(5.8)%	—	1,030
Espresso	60	(667)	(2,814)	(2,274)	2,874	1,607	1,267	78.8 %	—	—
Trilogy	(1,091)	156	(3,052)	(3,776)	1,961	3,932	(1,971)	(50.1)%	—	1,451
Subtotal	$ (1,037)	$ (3,047)	$ (8,602)	$ (11,534)	$ 7,565	$ 8,487	$ (922)	(10.9)%	$ 198	$ 4,767
Operator Platform[2]	(6)	10	—	—	(6)	10	(16)	(160.0)%	—	—
Total	$ (1,043)	$ (3,037)	$ (8,602)	$ (11,534)	$ 7,559	$ 8,497	$ (938)	(11.0)%	$ 198	$ 4,767

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

(2) Represents our investment in Solstice. During the three months ended September 30, 2020, our unconsolidated investment in Solstice was reduced to zero. As a result, we did not recognize our proportionate share of losses from the joint venture totaling $20,000.

Our proportionate share of equity in earnings generated by our unconsolidated ventures improved by $2.0 million, primarily due to foreign currency translation gains and lower interest expense recognized in the Griffin-American joint venture, as well as lower operating costs and higher rental income in the Espresso joint venture. Improved equity in earnings was partially offset by declines in operational performance in the Eclipse and Trilogy joint ventures.

Equity in earnings, less select revenues and expenses, decreased $0.9 million. The impact of COVID-19 on the operations of the Trilogy, Griffin-American and Eclipse joint ventures was the primary driver of the decrease during the three months ended September 30, 2020. Lower interest and operating expenses recognized by the Espresso joint venture during the three months ended September 30, 2020 partially offset the decrease.

Income Tax Expense

Income tax expense for the three months ended September 30, 2020 was $15,000 and related to our operating properties, which operate through a taxable REIT subsidiary structure. Income tax expense for the three months ended September 30, 2019 was $17,000.

Comparison of the Nine Months Ended September 30, 2020 to September 30, 2019 (dollars in thousands):

	Nine Months Ended September 30,		Increase (Decrease)	
	2020	2019	Amount	%
Property and other revenues				
Resident fee income	$ 90,033	$ 97,658	$ (7,625)	(7.8)%
Rental income	118,309	121,168	(2,859)	(2.4)%
Other revenue	1,612	1,445	167	11.6 %
Total property and other revenues	209,954	220,271	(10,317)	(4.7)%
Interest income				
Interest income on debt investments	5,738	5,771	(33)	(0.6)%
Expenses				
Real estate properties - operating expenses	137,530	135,213	2,317	1.7 %
Interest expense	49,591	51,908	(2,317)	(4.5)%
Transaction costs	7	105	(98)	(93.3)%
Asset management and other fees-related party	13,293	14,983	(1,690)	(11.3)%
General and administrative expenses	8,763	8,210	553	6.7 %
Depreciation and amortization	48,929	54,525	(5,596)	(10.3)%
Impairment loss	91,437	10,146	81,291	801.2 %
Total expenses	349,550	275,090	74,460	27.1 %
Realized gain (loss) on investments and other	—	5,926	(5,926)	(100.0)%
Equity in earnings (losses) of unconsolidated ventures	(36,799)	(7,666)	(29,133)	380.0 %
Income tax expense	(43)	(38)	(5)	13.2 %
Net income (loss)	$ (170,700)	$ (50,826)	$ (119,874)	235.9 %

Revenues

Resident Fee Income

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

	Nine Months Ended September 30,		Increase (Decrease)	
	2020	2019	Amount	%
Same store ALF/MCF/CCRC properties (placed in service - 2018 and prior)	$ 90,033	$ 97,658	$ (7,625)	(7.8)%

On a same store basis, resident fee income decreased $7.6 million primarily as a result of lower occupancy at our ALFs, MCFs and CCRCs and non-recurring income recognized in the Fountains portfolio during the nine months ended September 30, 2019. The effects of the COVID-19 pandemic resulted in limited inquiries and tours, which have significantly decreased the number of move-ins at our facilities, along with an increased number of move-outs.

Rental Income

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

	Nine Months Ended September 30,		Increase (Decrease)	
	2020	2019	Amount	%
Same store ILF properties (placed in service - 2018 and prior)	$ 93,636	$ 95,966	$ (2,330)	(2.4)%
Same store net lease properties (placed in service - 2018 and prior)	24,673	24,604	69	0.3 %
Properties sold	—	598	(598)	(100.0)%
Total rental income	$ 118,309	$ 121,168	$ (2,859)	(2.4)%

Rental income decreased $2.9 million primarily due to overall decreases in occupancy at our ILFs and the sale of two net lease properties within the Peregrine portfolio during 2019. The effects of the COVID-19 pandemic resulted in limited inquiries and tours, which have significantly decreased the number of move-ins at our facilities, along with an increased number of move-outs.

Effective June 1, 2020, we granted a lease concession to the tenant of our Fountains net lease portfolio. The concession allowed the tenant to defer a portion of contractual rent payments for a 90-day period, with full contractual rent to be repaid over the 12 months following the concession period. The amount of the deferred rental payments under the lease concession totaled $3.9 million. The lease concession period ended on August 31, 2020 and the tenant has resumed remitting contractual rent payments, including amounts related to deferred rent granted under the lease concession. As there has not been substantive changes to the original lease or changes in total cash flows, the concession will not be treated as a lease modification and we will continue to recognize lease income and receivables under the original terms of the lease.

Other Revenue

Other revenue for the nine months ended September 30, 2020 primarily comprised of federal COVID-19 provider relief funds received and recognized by properties in our Avamere, Fountains and Kansas City portfolios. For the nine months ended September 30, 2019, other revenue comprised of non-recurring service provider incentives recognized by the Winterfell portfolio and interest earned on uninvested cash.

Interest Income on Debt Investments

Interest income on debt investments for the nine months ended September 30, 2020 totaling $5.7 million was comparable to interest income on debt investments recognized during nine months ended September 30, 2019.

Expenses

Real Estate Properties - Operating Expenses

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

	Nine Months Ended September 30,		Increase (Decrease)	
	2020	2019	Amount	%
Same store (placed in service - 2018 and prior)				
ALF/MCF/CCRC properties	$ 71,933	$ 70,345	$ 1,588	2.3 %
ILF properties	65,584	64,864	720	1.1 %
Net lease properties	13	4	9	225.0 %
Total property operating expenses	$ 137,530	$ 135,213	$ 2,317	1.7 %

Overall, on a same store basis, real estate property - operating expenses, increased $2.3 million for the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019.

The increase in operating expenses is primarily attributable to the actions taken by our operators to protect residents and staff from COVID-19. In particular, operators are paying a premium for labor in many markets, particularly in communities that have been severely impacted by COVID-19. In addition, personal protective equipment continues to be costly to source during the pandemic. These costs were partially offset by lower repairs and maintenance expenses as operators minimized all non-essential projects across our direct investment operating portfolio.

Interest Expense

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

	Nine Months Ended September 30,		Increase (Decrease)	
	2020	2019	Amount	%
Same store (placed in service - 2018 and prior)				
ALF/MCF/CCRC properties	$ 14,385	$ 15,544	$ (1,159)	(7.5)%
ILF properties	25,704	26,837	(1,133)	(4.2)%
Net lease properties	8,879	9,178	(299)	(3.3)%
Properties sold	—	247	(247)	(100.0)%
Corporate	623	102	521	510.8 %
Total interest expense	$ 49,591	$ 51,908	$ (2,317)	(4.5)%

Interest expense decreased $2.3 million as a result of lower mortgage notes balances during the nine months ended September 30, 2020 due to continued principal amortization and loan payoffs, in addition to lower LIBOR, which has reduced interest expense on our floating rate debt. Interest expense was recognized and accrued for borrowings with deferred payments

under forbearance agreements. For the nine months ended September 30, 2020, corporate interest expense represents interest resulting from the borrowings under our Sponsor Line.

Transaction Costs

Transaction costs for the nine months ended September 30, 2020 were de minimis. Transaction costs for the nine months ended September 30, 2019 were primarily residual costs incurred for the Rochester operator license transfer.

Asset Management and Other Fees - Related Party

Our Advisor receives a monthly asset management fee equal to one-twelfth of 1.5% of our most recently published aggregate estimated net asset value. Asset management and other fees - related party decreased $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 $0.6 million, primarily as a result of non-operating compensation costs incurred for a property within the Fountains net lease portfolio during the nine months ended September 30, 2020. Increases to corporate overhead costs were offset by lower direct corporate expenses, including, accounting and other professional fees, incurred during the nine months ended September 30, 2020 as comparable to the nine months ended September 30, 2019.

Depreciation and Amortization

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

	Nine Months Ended September 30,		Increase (Decrease)	
	2020	2019	Amount	%
Same store (placed in service - 2018 and prior)				
ALF/MCF/CCRC properties	$ 14,959	$ 14,826	$ 133	0.9 %
ILF properties	22,847	29,042	(6,195)	(21.3)%
Net lease properties	11,123	10,554	569	5.4 %
Properties sold	—	103	(103)	(100.0)%
Total depreciation and amortization	$ 48,929	$ 54,525	$ (5,596)	(10.3)%

Depreciation and amortization expense decreased $5.6 million, primarily as a result of intangible assets becoming fully amortized in the Winterfell and Rochester portfolios in 2019. Impairments recognized during the second quarter of 2020 for properties in the Winterfell and Aqua portfolios reduced building depreciation expense for the nine months ended September 30, 2020 and contributed to the overall decrease.

Impairment Loss

During the nine months ended September 30, 2020, impairment losses were recorded totaling $91.4 million on operating real estate and held for sale investments. Impairment losses recorded during the nine months ended September 30, 2020 include the following:

- Winterfell Portfolio. Impairment losses totaled $70.8 million for eight independent living facilities as a result of sustained declines in occupancy and decreased operating margins.
- Aqua Portfolio. Impairment losses totaled $19.9 million for a facility that has experienced sustained poor performance and declines in occupancy and has been significantly impacted by the effects of COVID-19.
- Peregrine Portfolio. Impairment losses totaled $0.7 million to reflect an updated net realizable value for a facility previously as designated as held for sale.

During the nine months ended September 30, 2019, an impairment loss of $10.1 million was recorded, consisting of $10.0 million recognized for an operating property within the Rochester portfolio with continuing poor performance and low occupancy, as well as $0.1 million to reflect an updated estimated fair value for a net lease property within the Peregrine portfolio previously designated as held for sale.

Realized Gain (Loss) on Investments and Other

We did not recognize any realized gains (losses) during the nine months ended September 30, 2020. During the nine months ended September 30, 2019, realized gains of $5.9 million was primarily related to the sale of the properties within the Peregrine portfolio and two Remainder Interest units in the Fountains portfolio.

Equity in Earnings (Losses) of Unconsolidated Ventures

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

	Nine Months Ended September 30,									
	2020	2019	2020	2019	2020	2019			2020	2019
Portfolio	Equity in Earnings (Losses)		Select Revenues and (Expenses), net[1]		Equity in Earnings, less Select Revenues and Expenses		Increase (Decrease)		Cash Distributions	
Eclipse	$ (3,683)	$ 758	$ (4,381)	$ (402)	$ 698	$ 1,160	$ (462)	(39.8)%	$ 86	$ 2,573
Envoy	—	96	—	(822)	—	918	(918)	(100.0)%	390	4,339
Griffin-American	(37,905)	(7,654)	(44,729)	(16,046)	6,824	8,392	(1,568)	(18.7)%	1,487	5,581
Espresso	(522)	(3,034)	(8,256)	(6,324)	7,734	3,290	4,444	135.1 %	—	—
Trilogy	5,365	2,188	(10,404)	(10,433)	15,769	12,621	3,148	24.9 %	—	4,353
Subtotal	$ (36,745)	$ (7,646)	$ (67,770)	$ (34,027)	$ 31,025	$ 26,381	$ 4,644	17.6 %	$ 1,963	$ 16,846
Operator Platform[2]	(54)	(20)	—	—	(54)	(20)	(34)	170.0 %	—	—
Total	$ (36,799)	$ (7,666)	$ (67,770)	$ (34,027)	$ 30,971	$ 26,361	$ 4,610	17.5 %	$ 1,963	$ 16,846

(1) Represents our proportionate share of revenues and expenses excluded from the calculation of FFO and MFFO. Refer to "—Non-GAAP Financial Measures" for additional discussion.
(2) Represents our investment in Solstice.

Our proportionate share of equity in earnings generated by our unconsolidated ventures decreased by $29.1 million primarily due to real estate impairments recorded by the Griffin-American and Eclipse joint ventures.

Equity in earnings, less select revenues and expenses, increased by $4.6 million. Improved performance in the Espresso joint venture, primarily due to lower interest and operating expenses, as well as federal COVID-19 provider relief funds received and recognized by the Trilogy joint venture were the main contributors to the increase for the nine months ended September 30, 2020. Non-recurring earnings recognized by the Envoy joint venture upon the completion of the sale of its remaining operating assets during the three months ended March 31, 2019 and declines in operational performance in the Griffin-American and Eclipse joint ventures during the nine months ended September 30, 2020 partially offset the increase.

Income Tax Expense

Income tax expense for the nine months ended September 30, 2020 was $43,000 and related to our operating properties, which operate through a taxable REIT subsidiary structure. Income tax expense for the nine months ended September 30, 2019 was $38,000.

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.

Recurring principal amortization has increased over time as interest-only debt service periods for our borrowings expire. Further, we believe we need to continue to invest capital into our properties in order to maintain market position, as well as functional and operating standards, or to add value to our properties.

The impact of the COVID-19 pandemic has and will continue to impact our operating results and liquidity. 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.

At this time, it is difficult to accurately predict the full extent of the financial impact of the COVID-19 virus our operations, as it depends on the extent and nature of exposure of residents and staff to COVID-19, the availability and timeliness of adequate tests, better access to supplies and the duration of the crisis, among other factors. In response to this uncertainty, we have taken the following actions to preserve liquidity and financial resources:

- Borrowed $35.0 million under our Sponsor Line;
- Suspended all repurchases under our Share Repurchase Program effective April 30, 2020;
- Continue to limit capital expenditures of our operating real estate to life safety and essential projects and selectively approve additional improvements;
- Effective May 1, 2020, we entered into forbearance agreements to defer up to 90 days of 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 September 30, 2020.
- Effective July 1, 2020, we entered into a forbearance agreement to defer up to 90 days of interest payments and 120 days of principal payments and temporarily waive financial covenants under the mortgage note for a mortgage note payable on a property within our Rochester portfolio. The outstanding principal amount of the mortgage note payable was $19.9 million as of September 30, 2020.

We currently believe that our capital resources are sufficient to meet our capital needs for the following 12 months. As of November 12, 2020, we had approximately $73.4 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 leased properties and interest from our debt investment, as well as distributions from our investments in unconsolidated ventures. Net cash provided by operating activities was $28.0 million for the nine months ended September 30, 2020.

A substantial majority of our properties, or 78.0% 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 nine months ended September 30, 2020, 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. Beginning in March 2020, our operations began to be impacted by the COVID-19 pandemic. Occupancy, which is the primary driver of revenues at our properties, has declined, and may continue to decline, as shelter-in-place restrictions limited admissions, tours, inquiries and ultimately move-ins, while the pandemic also increases 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 materially impact our revenues, expenses and cash flow generated by the communities of our direct operating investments during the pandemic. As of November 12, 2020, 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 tenants will be impacted by the same COVID-19 factors discussed above, which has and will continue to affect our tenants' 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 November 12, 2020, rent collection details for our net lease investments are as follows:

- The tenant of our Peregrine portfolio has failed to remit rental payments in 2020;
- The tenant of our Arbors portfolio, which is currently in lease default as a result of failing to remit rent timely and satisfy other lease conditions, has paid contractual rent through October 2020;

- Effective June 1, 2020, we granted a lease concession to the tenant of our Fountains net lease portfolio. The concession allowed the tenant to defer a portion of contractual rent payments for a 90-day period, with full contractual rent to be repaid over the 12 months following the concession period. The lease concession provided the tenant relief consistent with the debt forbearance received from the lender of the properties in the portfolio. The amount of the deferred rental payments under the lease concession totaled $3.9 million. The lease concession period ended on August 31, 2020 and the tenant has resumed remitting contractual rent payments, including amounts related to deferred rent granted under the lease concession.

The performance of our tenants in our Arbors portfolio and Fountains net lease portfolio have been significantly and adversely affected by COVID-19 thus far, which has resulted in delays and shortfalls in payment of rent. Our tenants have applied for and benefited from federal relief assistance, however, the continuing impact of COVID-19 on 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 September 30, 2020, our unconsolidated joint ventures and consolidated joint ventures represented 35.1% and 20.8%, respectively, of our total real estate equity investments, based on cost. Due to uncertainty surrounding COVID-19, our joint ventures, which have been similarly impacted as our direct investments, are likely to suspend or 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 September 30, 2020, we had $1.4 billion of consolidated asset-level borrowings outstanding. During the nine months ended September 30, 2020, we paid $52.0 million in recurring principal and interest payments on these borrowings.

Although no significant consolidated borrowings mature in 2020 or 2021, $462.4 million of mortgage notes payable 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.

We entered into an additional forbearance agreement effective July 1, 2020 to defer up to 90 days of interest and 120 days of contractual principal payments for a mortgage note payable on a property within the Rochester portfolio. The forbearance agreement also temporarily waives financial covenants under the mortgage note, which the property has failed to maintain as of September 30, 2020. In addition, the tenant for the Arbors portfolio failed to remit rent timely and satisfy other conditions under its lease, which resulted in a default under the tenant's lease, and in turn, resulted in a default under the mortgage notes collateralized by the properties as of September 30, 2020.

As the impact of COVID-19 continues to influence performance at our healthcare properties, we expect that we will experience additional defaults. As a result, we entered into forbearance agreements to defer contractual debt service for borrowings on properties within the Aqua, Rochester, Arbors, Winterfell and Fountains portfolios. The deferred debt service must be repaid over the 12 months following the forbearance period. As of November 12, 2020, deferred debt service outstanding totaled $10.3 million, which has increased payments and will put pressure on liquidity in future periods.

The forbearance agreements for mortgage notes payable on properties within the Rochester, Arbors, Aqua, Fountains and Winterfell portfolios, which were effective on May 1, 2020, effectively deferring debt service for a 90 day period, expired on August 1, 2020. We have resumed remitting debt service, which has increased as a result of the deferred debt service, on these mortgage notes payable.

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 April 2020, we borrowed $35.0 million under our Sponsor Line to improve our liquidity position. The borrowings under our Sponsor Line carry an interest rate of 3.5% plus LIBOR. As of November 12, 2020, the effective interest rate of the Sponsor Line was 3.6%.

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 September 30, 2020, our leverage was 61.6% of our assets, other than intangibles, before deducting loan loss reserves, other non-cash reserves and depreciation. As of September 30, 2020, 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 60.7%.

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 leased 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 nine months ended September 30, 2020, we spent $9.0 million on capital expenditures for our direct investments, however in response to the COVID-19 pandemic, we, in conjunction with our operating partners, have limited capital expenditures to life safety and essential projects, with the selective approval of additional improvements. At this time, it is uncertain when normalized spending on capital expenditures, including strategic development as outlined in our strategy, will resume.

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. In 2019, we generated total net proceeds, after mortgage and loan repayments, of $26.6 million from dispositions of our direct investments and investments within our unconsolidated ventures. In July 2020, we sold a property in our Peregrine net lease portfolio previously designated as held for sale, generating net proceeds of $0.9 million.

We have made significant investments through both consolidated and unconsolidated joint ventures with third parties which we may share decision-making authority regarding certain major decisions and could prevent us from selling properties or our interest in the joint venture.

While we will continue to evaluate additional dispositions of investments in 2020, 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.

Further, our $74.2 million mezzanine loan debt investment matures January 2021 and we continue to assess the collectability of principal and interest. If the borrower is not able to refinance with another lender or otherwise repay the principal amount at its stated maturity, we may have to negotiate modifications to the loan agreement, which may delay our ability to realize liquidity from this investment. In addition, as a result of COVID-19, there may be additional defaults or challenges refinancing any of the senior borrowings, and we may be required to cure such defaults in order to preserve the collateral underlying our mezzanine loan.

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 have adopted a Share Repurchase Program effective August 7, 2012, which enables 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 during the COVID-19 pandemic. During the nine months ended September 30, 2020, we repurchased 0.3 million shares for an aggregate amount of $2.0 million.

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 2020, our advisory agreement was renewed for an additional one-year term commencing on June 30, 2020, with terms identical to those previously in effect, but for the elimination of the disposition fees. On June 22, 2020, our advisory agreement was amended to remove the disposition fees, effective June 30, 2020. 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):

	Nine Months Ended September 30,		
Cash flows provided by (used in):	**2020**	**2019**	**2020 vs. 2019 Change**
Operating activities	$ 27,980	$ 20,043	$ 7,937
Investing activities	(6,135)	(17,047)	10,912
Financing activities	18,144	(47,336)	65,480
Net (decrease) increase in cash, cash equivalents and restricted cash	$ 39,989	$ (44,340)	$ 84,329

Operating Activities

Net cash provided by operating activities totaled $28.0 million for the nine months ended September 30, 2020, compared to $20.0 million for the nine months ended September 30, 2019. The increase was primarily attributable to lower interest expense incurred, resulting from lower mortgage and other notes payable balances, as well as lower asset management fees incurred and paid during the nine months ended September 30, 2019.

Investing Activities

Our cash flows from investing activities are generally used to fund investment improvements and acquisitions, net of any investment dispositions. Net cash used in investing activities was $6.1 million for the nine months ended September 30, 2020 compared to $17.0 million for the nine months ended September 30, 2019. Cash flows used in investing activities for the nine months ended September 30, 2020 were primarily recurring capital expenditures for existing investments. Cash flows used in investing activities for the nine months ended September 30, 2019 were primarily a contribution to the Griffin-American joint venture funded in June 2019, partially offset by the net proceeds generated from the Peregrine properties sale and a distribution received from the Envoy joint venture upon the sale of its underlying operating assets.

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

	Nine Months Ended September 30,		
Capital Expenditures	**2020**	**2019**	**2020 vs. 2019 Change**
Recurring	$ 8,990	$ 14,644	$ (5,654)

Recurring capital expenditures have decreased during the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019 as a result of limiting expenditures to life safety and essential projects, with selective approval of additional improvements, in response to COVID-19.

Financing Activities

For the nine months ended September 30, 2020, our cash flows from financing activities were principally impacted by borrowing $35.0 million under our Sponsor Line, partially offset by our repurchases of common stock and repayments on our mortgage notes payable, which have been reduced as a result of forbearance agreements executed with lenders. Cash flows provided by financing activities was $18.1 million for the nine months ended September 30, 2020 compared to cash flows used in financing activities of $47.3 million for the nine months ended September 30, 2019. During the nine months ended September 30, 2019, the payment of dividends, repurchases of shares under our Share Repurchase Program and the Peregrine portfolio mortgage repayment in May 2019 were the primary drivers of financing cash flows.

Off-Balance Sheet Arrangements

As of September 30, 2020, 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.

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 December 2017, our advisory agreement was amended with changes to the asset management and acquisition fee structure as further described below. In June 2020, our advisory agreement was renewed for an additional one-year term commencing on June 30, 2020, with terms identical to those in effect through June 30, 2020, but for the elimination of the disposition fees. On June 22, 2020, our advisory agreement was amended to remove disposition fees, effective June 30, 2020.

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, with $2.5 million per calendar quarter of such fee paid in shares of our common stock at a price per share equal to the most recently published net asset value per share.

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. Our Advisor has not received any incentive fees as of September 30, 2020.

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

For substantial assistance in connection with the sale of investments and based on the services provided, as determined by our independent directors, our Advisor could have received a disposition fee of 2.0% of the contract sales price of each property sold and 1.0% of the contract sales price of each debt investment sold. We did not pay a disposition fee upon the maturity, prepayment, workout, modification or extension of a debt investment unless there was a corresponding fee paid by our borrower, in which case the disposition fee was the lesser of: (i) 1.0% of the principal amount of the debt investment prior to such transaction; or (ii) the amount of the fee paid by our borrower in connection with such transaction. If we took ownership of a property as a result of a workout or foreclosure of a debt investment, we paid a disposition fee upon the sale of such property. A disposition fee from the sale of an investment was generally expensed and included in asset management and other fees - related party in our consolidated statements of operations. A disposition fee for a debt investment incurred in a transaction other than a sale was included in debt investments, net on our consolidated balance sheets and was amortized to interest income over the life of the investment using the effective interest method.

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 tables present 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, 2019	Nine Months Ended September 30, 2020		Due to Related Party as of September 30, 2020 (Unaudited)
			Incurred	Paid	
Fees to Advisor Entities[1]					
Asset management[2]	Asset management and other fees-related party	$ 1,477	$ 13,293	$ (13,293) [2]	$ 1,477
Reimbursements to Advisor Entities					
Operating costs[3]	General and administrative expenses	4,303	7,287	(9,183)	2,407
Total		$ 5,780	$ 20,580	$ (22,476)	$ 3,884

(1) Effective June 30, 2020, our Advisor no longer has the potential to receive a disposition fee in connection with the sale of real estate properties or debt investments. We did not incur any disposition fees during the nine months ended September 30, 2020, nor were any such fees outstanding as of September 30, 2020.
(2) Includes $7.5 million paid in shares of our common stock.
(3) As of September 30, 2020, our Advisor did not have any unreimbursed operating costs which remained eligible to be allocated to us.

Pursuant to our advisory agreement, for the nine months ended September 30, 2020, we issued 1.2 million shares totaling $7.5 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 September 30, 2020, our Advisor, our Sponsor and their affiliates owned a total of 4.3 million shares or $26.9 million of our common stock based on our most recent estimated value per share. As of September 30, 2020, our Advisor, our Sponsor and their affiliates owned 1.9% 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 nine months ended September 30, 2020, we recognized property management fee expense of $3.8 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	Colony Capital/ Formation Capital, LLC	May 2014	5.6%
Griffin-American	Colony Capital	December 2014	14.3%

In connection with the acquisition of the Griffin-American portfolio by NorthStar Realty, now a subsidiary of Colony Capital, and us, our Sponsor acquired a 43.0%, as adjusted, ownership interest in American Healthcare Investors, LLC, or AHI, and Mr. James F. Flaherty III, a partner of our Sponsor, acquired a 12.3% ownership interest in AHI. AHI is a healthcare-focused real estate investment management firm that co-sponsored and advised Griffin-American, until Griffin-American was acquired by us and NorthStar Realty.

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.

Origination of 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, which bears interest at a fixed rate of 10.0% per year and matures in January 2021. In November 2019, we received a partial repayment of principal on the Espresso mezzanine loan totaling $0.8 million.

Line of Credit - Related Party

In October 2017, we obtained our Sponsor Line for up to $15.0 million at an interest rate of 3.5% plus LIBOR. Our Sponsor Line has an initial one year term, with an extension option of six months. Our Sponsor Line was approved by our board of directors, including all of our independent directors.

In November 2017, the borrowing capacity under our Sponsor Line was increased to $35.0 million. In March 2018, our Sponsor Line maturity date was extended through December 2020 and in May 2019, the maturity date was further extended through December 2021. In July 2020, the maturity date was extended through December 2022.

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.

Recent Developments

No material events have occurred subsequent to September 30, 2020 through the issuance of our consolidated financial statements.

Non-GAAP Financial Measures

Funds from Operations and Modified Funds from Operations

We believe that FFO and 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 are 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 are generally expensed under U.S. GAAP. In both situations, the fees are 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 adjust MFFO for the amortization of acquisition fees in the period when such amortization is recognized under U.S. GAAP or in the period in which the acquisition fees are expensed. Acquisition fees are paid in cash that would otherwise be available to distribute to our stockholders. Such fees and expenses will not be reimbursed by our Advisor or its affiliates and third parties, and therefore, such fees and expenses will need to be paid from either additional debt, operating earnings, cash flow or net proceeds from the sale of investments or properties. However, in general, we earn 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 Investment Program Association, 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 adjusts for items such as acquisition fees would only be comparable to non-traded REITs that have completed the majority of their acquisition activity and have other similar operating characteristics as us. Neither the 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, because it eliminates from net income non-cash fair value adjustments on our real estate securities and acquisition fees and expenses that are incurred as part of our investment activities. However, MFFO may not be a useful measure of our operating performance or as a comparable measure to other typical non-traded REITs if we do not continue to operate in a similar manner to other non-traded REITs, including if we were to extend our acquisition and development stage or if we determined not to pursue an exit strategy.

However, MFFO does have certain limitations. For instance, the effect of any amortization or accretion on debt investments originated or acquired at a premium or discount, respectively, is not reported in MFFO. In addition, realized gains (losses) from

acquisitions and dispositions and other adjustments listed above are not reported in MFFO, even though such realized gains (losses) and other adjustments could affect our operating performance and cash available for distribution. Stockholders should note that any cash gains generated from the sale of investments would generally be used to fund new investments. Any mark-to-market or fair value adjustments may be based on many factors, including current operational or individual property issues or general market or overall industry conditions.

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

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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Funds from operations:				
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (17,987)	$ (14,624)	$ (169,749)	$ (50,387)
Adjustments:				
Depreciation and amortization	15,945	16,164	48,929	54,525
Impairment losses of depreciable real estate	—	—	91,437	10,146
Depreciation and amortization related to unconsolidated ventures	7,640	7,942	23,946	23,802
Depreciation and amortization related to non-controlling interests	(161)	(158)	(485)	(471)
Impairment loss on real estate related to non-controlling interests	—	—	(597)	(300)
Realized (gain) loss from sales of property	—	—	—	(6,104)
Realized (gain) loss from sales of property related to unconsolidated ventures	(237)	—	(237)	(85)
Impairment losses of depreciable real estate held by unconsolidated ventures	138	1,102	37,517	1,617
Funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	$ 5,338	$ 10,426	$ 30,761	$ 32,743
Modified funds from operations:				
Funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	$ 5,338	$ 10,426	$ 30,761	$ 32,743
Adjustments:				
Acquisition fees and transaction costs	—	29	7	105
Straight-line rental (income) loss	154	(50)	224	(478)
Amortization of premiums, discounts and fees on investments and borrowings	1,248	1,235	3,724	3,673
Adjustments related to unconsolidated ventures[(1)]	1,062	2,490	6,545	8,693
Adjustments related to non-controlling interests	(12)	(6)	(36)	(21)
Realized (gain) loss on investments and other	—	(204)	—	178
Modified funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	$ 7,790	$ 13,920	$ 41,225	$ 44,893

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

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.

The following table presents distributions declared (dollars in thousands):

	Nine Months Ended September 30, 2020			Year Ended December 31, 2019	
Distributions[1]					
Cash	$ —		$	2,991	
DRP	—			2,422	
Total	$ —		$	5,413	
Sources of Distributions[1]					
FFO[2]	$ —	— %	$	5,413	100 %
Offering proceeds - Other	—	— %		—	— %
Total	$ —	— %	$	5,413	100 %
Cash Flow Provided by (Used in) Operations	$ 27,980		$	25,298	

(1) Represents distributions declared for such period, even though such distributions are actually paid to stockholders the month following such period.
(2) From inception of our first investment on April 5, 2013 through September 30, 2020, we declared $433.8 million in distributions. Cumulative FFO for the period from April 5, 2013 through September 30, 2020 was $123.2 million.

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.

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 September 30, 2020, 14.0% of our total borrowings were floating rate liabilities and none of our real estate debt investments were floating rate investments. As of September 30, 2020, floating rate liabilities outstanding related to mortgage notes payable of our direct operating investments and our line of credit from a related party.

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 September 30, 2020, a hypothetical 100 basis point increase in interest rates would increase net interest expense by $2.1 million annually. We did not have any floating rate real estate debt investments as of September 30, 2020.

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 September 30, 2020, we had one fixed-rate debt investment with a carrying value of $55.0 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. This announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021.

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 tenants, operators and managers 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 or manager's business as well as an assessment of the strategic importance of the underlying real estate to the operator or manager's core business operations. Where appropriate, we may seek to augment the operator or manager's commitment to the facility by structuring various credit enhancement mechanisms into the underlying leases, management agreements or joint venture arrangements. 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 September 30, 2020, one borrower, a subsidiary of the Espresso joint venture, accounted for 100.0% of the aggregate principal amount of our debt investments and 100.0% of our interest income for the nine months ended September 30, 2020. We continue to assess the collectability of principal and interest and monitor the status of the sub-portfolios and senior lenders within the joint venture. The debt investment matures in January 2021 and if the borrower is not able to refinance with another lender or otherwise repay the principal amount at its stated maturity, we may have to negotiate modifications to the loan agreement, which may delay our ability to realize liquidity from this investment.

Risk Concentration

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

				Nine Months Ended September 30, 2020	
Operator / Tenant		**Properties Under Management**	**Units Under Management[1]**	**Property and Other Revenues[2]**	**% of Total Property and Other Revenues**
Watermark Retirement Communities		30	5,265	$ 106,499	50.8 %
Solstice Senior Living	(3)	32	4,000	76,314	36.3 %
Avamere Health Services		5	453	13,496	6.4 %
Arcadia Management		4	572	7,961	3.8 %
Integral Senior Living	(3)	3	162	5,521	2.6 %
Senior Lifestyle Corporation	(4)	1	63	—	— %
Other	(5)	—	—	163	0.1 %
Total		75	10,515	$ 209,954	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) Tenant has failed to remit rental payments during the nine months ended September 30, 2020.
(5) 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.

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/or 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

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, 2019, as filed with the SEC on March 23, 2020, except as noted below.

The ongoing COVID-19 pandemic and measures intended to prevent its spread could have a material adverse effect on our business, results of operations, cash flows and financial condition.

We anticipate that the COVID-19 pandemic and measures to prevent its spread will continue to materially and adversely impact our business. Our revenue depends significantly on occupancy levels at our properties. Occupancy has declined and is expected to continue to decline during the pendency of the pandemic as shelter-in-place restrictions and restrictions on admissions have dramatically limited inquiries and tours and caused a significant reduction in move-ins. At the same time, the pandemic raises the risk of resident illness and move-outs at our properties. In addition, we have incurred additional operating costs to obtain adequate staffing and personal protective equipment. We do not know to what extent, if any, federal relief programs may alleviate these concerns. For our direct operating investments, we expect that these factors will continue to directly impact our revenues, operating income and cash flow generated by operations during the pandemic.

For our direct net lease investments, these factors will influence our tenants' ability and willingness to pay rent, which in turn will impact our revenues, net operating income and cash flow generated by operations. The performance of our tenants in our Arbors portfolio and Fountains net lease portfolio have been significantly and adversely affected by COVID-19 thus far, which has resulted in delays and shortfalls in payment of rent. The impact of COVID-19 on their ability to pay rent in the future is currently unknown. We may be forced to restructure tenants' long-term lease obligations or suffer adverse consequences from the bankruptcy, insolvency or financial deterioration of one or more of our tenants, operators, borrowers or managers. For further information regarding these risks, refer to "Risks Relating to Our Business" in our Annual Report on 10-K for the year ended December 31, 2019.

Declines in performance at our properties may result in defaults under our borrowings, including in some cases insufficient cash flow generated by operations to support current debt service on our borrowings. Any defaults will negatively impact our liquidity and may increase our risk of loss associated with our properties. We have entered into forbearance agreements suspending debt service payments for borrowings on properties within our Aqua, Rochester, Arbors, Winterfell and Fountains portfolios. The aggregate outstanding principal amount of these borrowings totaled $1.3 billion as of September 30, 2020. Pursuant to these forbearance agreements, we are required to repay deferred debt service within 12 months following the end of the forbearance period, and our ability to do so may depend upon the extent and severity of the impact of COVID-19 on our 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 required to repay outstanding obligations, including penalties, prior to the stated maturity, or potentially have assets foreclosed upon.

Refer to "Risks Related to Our Capital Structure" in our Annual Report on 10-K for the year ended December 31, 2019 for additional information regarding risks associated with our leverage.

Although we have taken measures to preserve capital, a prolonged period of decreased revenues, defaults under borrowings and limited ability to dispose of assets to generate additional liquidity could materially and adversely affect our financial condition and long-term prospects.

We may also be subject to increased risk of litigation and liability claims as a result of the COVID-19 pandemic and our operating partners' response efforts.

The extent of the COVID-19 pandemic's effect on our operational and financial performance will depend on future developments, including the duration, spread and intensity of the outbreak, all of which are uncertain and difficult to predict. Due to the speed with which the situation is developing, we are not able at this time to estimate the effect of these factors on our business, but the adverse impact on our business, results of operations, financial condition and cash flows could be material.

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 nine months ended September 30, 2020, we have not declared any distributions. For the year ended December 31, 2019, we declared distributions of $5.4 million compared to cash provided by operating activities of $25.3 million. For the declared distributions during the year ended December 31, 2019, $5.4 million, or 100.0%, of the distributions declared were paid using cash from operations.

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. 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 nine months ended September 30, 2020, we repurchased shares of our common stock as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan or Program
January 1 to January 31	—	—	—	
February 1 to February 28	319,700	$ 6.25	319,700	(1)
March 1 to March 31	—	—	—	
April 1 to April 30	—	—	—	
May 1 to May 31	—	—	—	
June 1 to June 30	—	—	—	
July 1 to July 30	—	—	—	
August 1 to August 31	—	—	—	
September 1 to September 30	—	—	—	
Total	319,700		319,700	

(1) 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 at a price equal to the lesser of the price paid for the shares, as adjusted for any stock dividends, combinations, splits, recapitalizations or any similar transactions, or the most recently published estimated value per share.

Unregistered Sales of Equity Securities

On July 31, 2020, August 31, 2020 and September 30, 2020, we issued 133,333 shares of common stock at $6.25 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.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

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)
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

* 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: November 12, 2020

By: /s/ RONALD J. JEANNEAULT

Name: Ronald J. Jeanneault

Title: *Chief Executive Officer, President and Vice Chairman*

By: /s/ FRANK V. SARACINO

Name: Frank V. Saracino

Title: *Chief Financial Officer and Treasurer*

Exhibit 31.1

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

I, Ronald J. Jeanneault, certify that:

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

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

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

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

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

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

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

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

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

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

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

By: /s/ RONALD J. JEANNEAULT

Name: Ronald J. Jeanneault
Title: *Chief Executive Officer, President and Vice Chairman*
Date: November 12, 2020

Exhibit 31.2

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

I, Frank V. Saracino, certify that:

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

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

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

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

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

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

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

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

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

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

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

By: /s/ FRANK V. SARACINO
Name: Frank V. Saracino
Title: *Chief Financial Officer and Treasurer*
Date: November 12, 2020

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of NorthStar Healthcare Income, Inc. (the "Company") for the three months ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Ronald J. Jeanneault, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

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

Date: November 12, 2020

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

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

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of NorthStar Healthcare Income, Inc. (the "Company") for the three months ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Frank V. Saracino, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

By: /s/ FRANK V. SARACINO
Frank V. Saracino
Chief Financial Officer and Treasurer
Date: November 12, 2020

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

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