NorthStar
HEALTHCARE INCOME

2018 ANNUAL REPORT

To Our Stockholders,

On behalf of your board of directors and management team, we at NorthStar Healthcare Income, Inc. (NorthStar Healthcare or the Company) would like to share with you an update on the Company's performance during 2018 and its objectives for 2019.

2018 was another challenging year for NorthStar Healthcare. Our operating performance continued to be negatively impacted by industry headwinds, including challenges stemming from supply growth, rate pressures and increasing labor costs. In addition, the Company continued to work through operator transitions commenced in 2017, which resulted in disruption in operations and occupancy during 2017 and 2018. As a result of these factors, among other things, NorthStar Healthcare's board of directors approved a new estimated net asset value per share of $7.10 per share as of June 30, 2018, which reflects a decrease of approximately 20% on the prior year's estimated net asset value per share.

In light of these continued challenges, NorthStar Healthcare took a number of additional steps to strengthen its capital structure and improve liquidity. Specifically, the Company suspended its monthly distribution payments to stockholders effective February 1, 2019 and has limited repurchases under its share repurchase program to repurchases only in connection with qualifying death and disability requests effective October 29, 2018. Although these were not easy decisions, after thorough consideration of NorthStar Healthcare's financial condition, liquidity sources and capital needs, the Company's board of directors believes these actions were necessary to preserve capital and protect NorthStar Healthcare's financial position in order to drive long-term value for stockholders.

While disappointed in the results of 2018, we remain highly focused on improving our operations and liquidity, as well as driving the performance of our investments. We continue to combat industry headwinds and related performance issues through active asset management, including operator transitions and lease modifications, where appropriate, continued investment in our portfolio through maintenance and strategic capital expenditures and evaluating opportunities to reposition or dispose of assets.

Despite these challenges, we continue to believe in the compelling long-term demographics and other market dynamics of the healthcare industry, as well as the long-term value of our diverse portfolio. We also remain committed to maximizing value for our stockholders.

We appreciate your investment and continued confidence in Colony Capital, Inc. and NorthStar Healthcare and look forward to the year ahead.

Sincerely,

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

Justin Chang
Chairman

NORTHSTAR HEALTHCARE INCOME, INC.

2018 ANNUAL REPORT

TABLE OF CONTENTS

Upon written request, we will provide, without charge, a copy of our Annual Report on Form 10-K, including the financial statements and financial statement schedules required to be filed therewith. All such requests should be submitted to NorthStar Healthcare Income, Inc., 590 Madison Avenue, 34th Floor, New York, New York 10022, Attn: General Counsel.

OTHER FINANCIAL INFORMATION

Information included in this annual report to stockholders (this "Annual Report") was excerpted from our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 as filed with the U.S. Securities and Exchange Commission (the ''SEC'') on March 22, 2019 (the ''2018 Form 10-K''). Certain portions of the 2018 Form 10-K were not reprinted for inclusion in this Annual Report in accordance with SEC regulations. The 2018 Form 10-K may be viewed in its entirety on our website at *NorthStarHealthcareReit.com*. References herein to Parts or Items are references to such sections of the 2018 Form 10-K.

For information regarding the independent directors' report on the fairness of all transactions involving us, our directors, our advisor, our sponsor and any affiliate of such parties, please see "Certain Relationships and Related Transactions" of our 2019 proxy statement.

FORWARD-LOOKING STATEMENTS

This Annual Report on 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:

- adverse economic conditions and the impact on the real estate industry, including healthcare real estate;
- the impact of economic conditions on the operators/tenants of the real property that we own as well as on borrowers of the debt we originate and acquire;
- the ability of our tenants, operators and managers to conduct their respective businesses in a manner sufficient to maintain or increase their revenues and to generate sufficient income to make rent payments to us and, in turn, our ability to satisfy our obligations under our borrowings;
- the impact of increased operating costs on our liquidity, financial condition and results of operations or that of our tenants, operators and managers and our ability and the ability of our tenants, operators and managers to accurately estimate the magnitude of those costs;
- the nature and extent of future competition, including new construction in the markets in which our assets are located;
- the ability of our tenants, operators and managers, as applicable, to comply with laws, rules and regulations in the operation of our properties, to deliver high-quality services, to attract and retain qualified personnel and to attract residents and patients;
- 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 financial weakness of our tenants and operators, including potential bankruptcies and downturns in their businesses, and their legal and regulatory proceedings, which results in uncertainties regarding our ability to continue to realize the full benefit of such tenants’ and operators’ leases and/or expose us to additional liabilities and expenses;
- 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;
- the impact of market and other conditions influencing the performance of our investments relative to our expectations and the impact on our actual return on invested equity, as well as the cash provided by these investments;
- our liquidity and access to capital;
- our use of leverage;
- our ability to make distributions to our stockholders;
- the lack of a public trading market for our shares;
- the effect of economic conditions on the valuation of our investments;
- the effect of paying distributions to our stockholders from sources other than cash flow provided by operations;
- 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 following our sponsor's merger with NorthStar Realty Finance Corp. and Colony Capital, Inc., 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;
- changes in our business or investment strategy;
- changes in the value of our portfolio;
- the impact of fluctuations in interest rates;
- our ability to realize current and expected returns over the life of our investments;
- illiquidity of properties or debt investments in our portfolio;
- environmental compliance costs and liabilities;
- the effectiveness of our risk and portfolio management systems;
- 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;
- the extent and timing of future healthcare reform and regulation, including changes in reimbursement policies, procedures and rates;
- 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, or the Investment Company Act, as amended;
- general volatility in capital markets;
- the adequacy of our cash reserves and working capital; 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 Annual Report are based on information available to us on the date hereof and we are under no duty to update any of the forward-looking statements after the date of this report to conform these statements to actual results.

Factors that could have a material adverse effect on our operations and future prospects are set forth in our filings with the U.S. Securities and Exchange Commission, or the SEC, including the "Risk Factors" in our 2018 Form 10-K. The risk factors set forth in our filings with the SEC could cause our actual results to differ significantly from those contained in any forward-looking statement contained in this report.

BUSINESS

References to “we,” “us” or “our” refer to NorthStar Healthcare Income, Inc. and its subsidiaries, in all cases acting through its external advisor, unless context specifically requires otherwise.

Overview

We were formed to acquire, originate and asset manage a diversified portfolio of equity, debt and securities investments in healthcare real estate, directly or through joint ventures, with a focus on the mid-acuity 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 completed our initial public offering, or our Initial Offering, on February 2, 2015 by raising gross proceeds of $1.1 billion, including 108.6 million shares issued in our initial primary offering, or our Initial Primary Offering, and 2.0 million shares issued pursuant to our distribution reinvestment plan, or our DRP. In addition, we completed our follow-on offering, or our Follow-On Offering, on January 19, 2016 by raising gross proceeds of $700.0 million, including 64.9 million shares issued in our follow-on primary offering, or our Follow-on Primary Offering, and 4.2 million shares issued pursuant to our DRP. We refer to our Initial Primary Offering and our Follow-on Primary Offering collectively as our Primary Offering and our Initial Offering and Follow-On Offering collectively as our Offering. In December 2015, we registered an additional 30.0 million shares to be offered pursuant to our DRP and continue to offer such shares, although we suspended payment of monthly distributions to stockholders on February 1, 2019. From inception through March 21, 2019, we raised total gross proceeds of $2.0 billion, including $232.6 million in DRP proceeds.

We are externally managed and have no employees. We are sponsored by Colony Capital, Inc. (NYSE: CLNY), or Colony Capital or our Sponsor, which was formed as a result of the mergers of NorthStar Asset Management Group Inc., or NSAM, our prior sponsor, with Colony Capital, Inc., or Colony, and NorthStar Realty Finance Corp., or 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, our 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, which we refer to collectively as the Managed Companies. As of December 31, 2018, our Sponsor had $43.0 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.

Our Strategy

Our primary objective is to invest and manage our portfolio to maximize shareholder value by generating attractive risk-adjusted returns, while maintaining stable cash flow for distributions. The key elements of our strategy include:

- *Grow the Operating Income Generated by Our Portfolio.* Through active portfolio management, we will continue to review and implement operating strategies and initiatives in order to enhance the performance of our existing investment portfolio.
- *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. 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, we have a revolving line of credit to provide additional short-term liquidity as needed. Refer to "Liquidity and Capital Resources" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information.

Our Investments

We have invested in independent living facilities, or ILF, assisted living facilities, or ALF, memory care facilities, or MCF, continuing care retirement communities, or CCRC, which we collectively refer to as senior housing facilities, skilled nursing facilities, or SNF, medical office buildings, or MOB, and hospitals.

Our primary investment segments are as follows:

- <u>Direct Investments - Net Lease</u> - Healthcare properties operated under net leases with a tenant operator.

- <u>Direct Investments - Operating</u> - Healthcare properties operated pursuant to management agreements with healthcare operators.

- <u>Unconsolidated Investments</u> - Healthcare joint ventures, including properties operated under net leases or pursuant to management agreements with healthcare operators, in which we own a minority interest.

- <u>Debt and Securities Investments</u> - 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 December 31, 2018, we had one mezzanine loan.

For financial information regarding our reportable segments, refer to Note 14, "Segment Reporting" in our accompanying consolidated financial statements included in "Financial Statements and Supplementary Data."

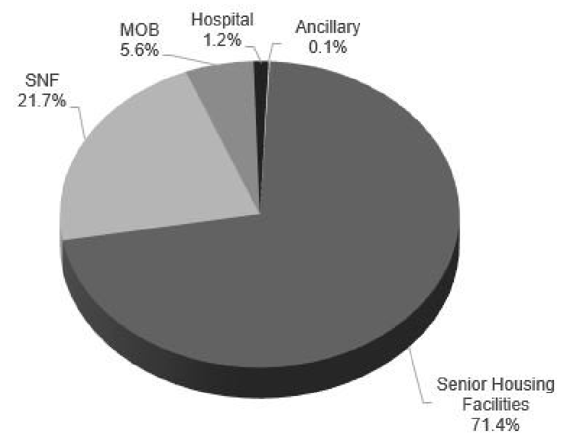
The following table presents a summary of investments as of December 31, 2018 (dollars in thousands):

Investment Type / Portfolio	Amount[3]	Properties[1][2] 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[5]	25,500	3	—	—	—	3	Northeast/Southeast	100.0%
Subtotal	441,161	13	—	—	—	13		
Direct Investments - Operating								
Winterfell	904,985	32	—	—	—	32	Various	100.0%
Watermark Fountains[4]	356,915	9	—	—	—	9	Various	97.0%
Rochester	219,518	10	—	—	—	10	Northeast	97.0%
Watermark Aqua	116,215	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	475,861	92	108	41	14	255	Various	14.3%
Trilogy[6]	351,255	9	—	70	—	79	Various	23.2%
Espresso	320,373	6	—	150	—	156	Various	36.7%
Eclipse	56,540	44	—	32	—	76	Various	5.6%
Solstice[7]	—	—	—	—	—	—	Various	20.0%
Envoy[8]	—	—	—	—	—	—	Mid - Atlantic/Northeast	11.4%
Subtotal	1,204,029	151	108	293	14	566		
Debt and Securities Investments								
Mezzanine Loan[9]	75,000	—	—	—	—	—		
Total Investments	$ 3,451,688	228	108	293	14	643		

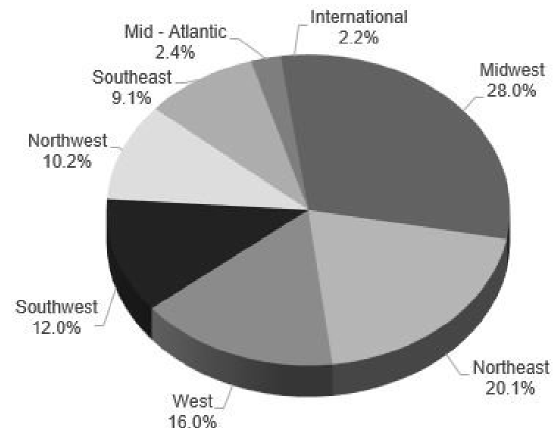
(1) Classification based on predominant services provided, but may include other services.
(2) Excludes properties held for sale.
(3) Based on cost for real estate equity investments, which includes purchase price allocations related to net intangibles, deferred costs, other assets, if any, and adjusted 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 11 condominium units in which we hold future interests, or the Remainder Interests.
(5) Properties within Peregrine portfolio are leased to two tenants, affiliates of Peregrine Senior Living and Senior Lifestyle Corporation.
(6) Includes institutional pharmacy, therapy businesses and lease purchase buy-out options in connection with the Trilogy investment, which are not subject to property count.
(7) In November 2017, we began the transition of operations of the Winterfell portfolio, from the former manager, an affiliate of Holiday Retirement, to a new manager, Solstice. Solstice is a joint venture between affiliates of Integral Senior Living, LLC, a leading management company of ILF, ALF and MCF founded in 2000, which owns 80.0%, and us, who owns 20.0%.
(8) The remaining 11 properties owned by the Envoy joint venture have been reclassified as held for sale. In March 2019, the Envoy joint venture completed the sale of the 11 properties, for a sales price of $118.0 million.
(9) Our mezzanine loan was originated to a subsidiary of our joint venture with 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 December 31, 2018:

- *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 memory care facilities 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 assisted living facilities. Residents require a higher level of care and more assistance with activities of daily living than in assisted living facilities. 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 81.6% as of December 31, 2018.

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 four operators, with a remaining weighted average lease term of 7.9 years as of December 31, 2018.

Operators and Tenants

The following table presents the operators and tenants of our direct investments as of December 31, 2018 (dollars in thousands):

				Year Ended December 31, 2018	
Operator / Tenant		**Properties Under Management**	**Units Under Management[1]**	**Property and Other Revenues**	**% of Total Property and Other Revenues**
Watermark Retirement Communities		30	5,265	$ 152,875	52.0%
Solstice Senior Living	(2)	32	4,000	105,617	35.9%
Avamere Health Services	(3)	5	453	16,735	5.7%
Arcadia Management		4	572	10,615	3.6%
Integral Senior Living	(2)	3	162	5,695	1.9%
Peregrine Senior Living		2	114	1,467	0.5%
Senior Lifestyle Corporation	(4)	1	63	51	—%
Other	(5)	—	—	1,216	0.4%
Total		77	10,629	$ 294,271	100.0%

(1) Represents rooms for ALF and ILF and beds for MCF and SNF, based on predominant type.
(2) Solstice Senior Living, LLC is a joint venture of which affiliates of Integral Senior Living own 80%.
(3) Effective February 2018, properties under the management of Bonaventure were transitioned to Avamere Health Services.
(4) As a result of the tenant failing to remit rental payments, we accelerated the amortization of capitalized lease inducements. Properties and unit counts exclude one property held for sale.
(5) Consists primarily of interest income earned on corporate-level cash accounts.

We have been in the process of transitioning several of our portfolios to new operators or managers. In certain instances, we transitioned portfolios as part of our overall business plan, or as a result of a decision that a seller does not want to continue managing the portfolio following the acquisition. For example, in November 2017, we began the transition of operations of the Winterfell portfolio from the former manager, an affiliate of Holiday Retirement, to a new manager, Solstice. Solstice is a joint venture between affiliates of Integral Senior Living, or ISL, a leading management company of senior independent living, assisted living and memory care properties founded in 2000, which owns 80%, and us, who owns 20%. We have also transitioned operations of the newly acquired Rochester, Avamere and Oak Cottage portfolios, which were planned in connection with the acquisitions.

In other instances, the transition was the result of the failure of an operator to meet certain of its lease obligations, such as the Kansas City portfolio, for which we entered into a new management agreement with a third party manager, ISL, in June 2017, and the Peregrine portfolio, for which we entered into a new lease with an affiliate of Senior Lifestyle Corporation, or SLC, and transitioned two of the four properties to SLC in the third quarter of 2016.

While several of our portfolios have completed the process of transitioning operators and managers, the ongoing impact of the completed transitions and new transitions continued through 2018.

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.

<u>Unconsolidated Investments</u>

As of December 31, 2018, our unconsolidated investments included the following:

- *Griffin-American.* We own a 14.3% interest in a $3.3 billion portfolio, based on cost, of SNFs, ALFs, MOBs and hospitals across the United States and care homes in the United Kingdom. Our Sponsor and other minority partners own the remaining 85.7% of this portfolio.

- *Trilogy*. We own a 23.2% interest in a $1.5 billion portfolio, based on cost, 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. The joint venture continues to be active in the development of new facilities as part of its business plan and has grown, in both property count and net operating income, year-over-year. 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.

- *Espresso.* We own a 36.7% interest in a $0.9 billion portfolio, based on cost, 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. Three of the sub-portfolios within the Espresso joint venture have executed operator transitions plans. An affiliate of Formation Capital, or Formation, acts as the general partner and manager of this investment. We also have a mezzanine loan relating to this portfolio. Refer to "—Real Estate Debt and Securities Investments Overview" below.

- *Eclipse.* We own a 5.6% interest in a $1.0 billion portfolio, based on cost, 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.

- *Solstice.* We own a 20.0% interest in an operator platform joint venture established to manage the operations of the Winterfell portfolio. An affiliate of Integral Senior Living, LLC, a leading management company of ILF, ALF and MCF founded in 2000, owns the remaining 80.0%.

- *Envoy*. We own an 11.4% interest in a $0.1 billion portfolio, based on cost, of SNFs located in the Mid-Atlantic region and operated by a single operator. Formation acts as the general partner and manager of this investment. All remaining properties within the Envoy portfolio have been reclassified as held for sale as of December 31, 2018. In March 2019, the Envoy joint venture completed the sale of the 11 properties, for a sales price of $118.0 million.

<u>Real Estate Debt and Securities Investments Overview</u>

As of December 31, 2018, 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 December 31, 2018 (dollars in thousands):

Investment Type:	Count	Principal Amount	Carrying Value[2]	Fixed Rate	Unleveraged Current Yield
Espresso Mezzanine loan[1]	1	$ 75,000	$ 58,600	10.0%	10.3%

(1) Property types underlying the mezzanine loan predominately include SNFs, which are 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 as of December 31, 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 December 31, 2018, our debt investment was not performing in accordance with the contractual terms of its governing documents. The Espresso mezzanine loan is secured by a joint venture that has several sub-portfolios, three of which have experienced tenant lease defaults and operator transitions. The underlying tenant defaults resulted in defaults under the senior loans with respect to the applicable sub-portfolios, which in turn resulted in defaults under our mezzanine loan as of December 31, 2018. We are actively monitoring the actions of the senior lenders of each sub-portfolio and assessing our rights and remedies. We are also actively monitoring the operator transitions and continue to assess the collectability of principal and interest. As of March 21, 2019, contractual debt service on the Espresso mezzanine loan has been paid in accordance with contractual terms.

Portfolio Management

Our Advisor and its affiliates, directly or together with third party sub-advisors, maintain a comprehensive portfolio management process that generally includes oversight by an asset management team, regular management meetings and an exhaustive quarterly credit and operating results review process. These processes are designed to enable management to evaluate and proactively identify asset-specific credit issues and trends on a portfolio-wide, sub-portfolio or by asset type basis. Nevertheless, we cannot be certain that our Advisor's review, or any third parties acting on our or our Advisor's behalf, 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.

Formation provides asset management services to us in connection with the Eclipse, Espresso and Envoy joint ventures. Our Advisor, under the direction of its investment committee, supervises Formation and retains ultimate oversight and responsibility for the management of our portfolio.

Our Advisor, together with Formation (referred to herein as our Advisor's asset management team), are experienced and use many methods to actively manage our asset base to enhance or preserve our income, value and capital and mitigate risk. Our Advisor's asset management 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. During the quarterly credit and operating results review, or more frequently as necessary, investments are put on highly-monitored status, as appropriate, based upon several factors, including missed or late contractual payments, significant declines in performance and other data which may indicate a potential issue in our ability to recover our invested capital from an investment. Each situation depends on many factors, including the number of properties, the type of property, macro and local market conditions impacting supply/demand, cash flow and the financial condition of our operators/managers/borrowers.

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.

Independent Directors' Review of Our Policies

As required by our charter, our independent directors have reviewed our policies, including but not limited to our policies regarding investments, leverage, conflicts of interest and investment allocation and determined that they are in the best interests of our stockholders. Our key policies that provide the basis for such determination are summarized herein.

Regulation

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

- regulate our public disclosures, reporting obligations and capital raising activity;
- require compliance with applicable REIT rules;
- regulate healthcare operators, including those in the senior housing sector that may be our operators, with respect to licensure, certification for participation in government programs and relationships with patients, physicians, tenants and other referral sources;
- establish loan servicing standards;
- regulate credit granting activities;
- require disclosures to customers;
- govern secured transactions;
- set collection, taking title to collateral, repossession and claims-handling procedures and other trade practices;
- regulate land use and zoning;
- regulate the foreign ownership or management of real property or mortgages;
- regulate the ability of foreign persons or corporations to remove profits earned from activities within the country to the person's or corporation's country of origin;
- regulate tax treatment and accounting standards; and
- regulate use of derivative instruments and our ability to hedge our risks related to fluctuations in interest rates and exchange rates.

In the judgment of management, while we do incur significant expense complying with the various regulations to which we are subject, existing statutes and regulations have not had a material adverse effect on our business. However, it is not possible to forecast the nature of future legislation, regulations, judicial decisions, orders or interpretations, nor their impact upon our future business, financial condition, results of operations or prospects.

For additional information regarding regulations applicable to us, refer to below and "Risk Factors" in our 2018 Form 10-K.

Tax Regulation

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

The Protecting Americans from Tax Hikes Act of 2015

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

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

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

The Tax Cuts and Jobs Act

On December 22, 2017, President Trump signed into law H.R. 1, informally titled the Tax Cuts and Jobs Act, or the TCJA. The TCJA made major changes to the Internal Revenue Code including several provisions of the Internal Revenue Code that may affect the taxation of REITs and their securityholders described under the heading "U.S. Federal Income Tax Considerations" in our prospectus included in our Registration Statement on Form S-3 filed December 7, 2015. The individual and collective impact of these changes on REITs and their securityholders remains uncertain in some respects, and may not become evident for some period. The most significant of these provisions are briefly summarized as follows:

- With respect to individuals, the TCJA made significant changes to individual tax rates and deductions:
  - The TCJA created seven income tax brackets for individuals ranging from 10% to 37% that generally apply at higher thresholds than current law. For example, the highest 37% rate applies to joint return filer incomes above $600,000, instead of the highest 39.6% rate that applied to incomes above $470,700 under pre-TCJA law.
  - The maximum 20% rate that applies to long-term capital gains and qualified dividend income is unchanged, as is the 3.8% Medicare tax on net investment income remained unchanged.
  - The TCJA eliminated personal exemptions, but nearly doubled the standard deduction for most individuals (for example, the standard deduction for joint return filers rose from $12,700 in 2017 to $24,000 in 2018).
  - The TCJA eliminated many itemized deductions, limited individual deductions for state and local income, property and sales taxes (other than those paid in a trade or business) to $10,000 collectively for joint return filers (with a special provision to prevent 2017 deductions for prepayment of 2018 taxes), and limited the amount of new acquisition indebtedness on principal or second residences for which mortgage interest deductions are available to $750,000. Interest deductions for new home equity debt were eliminated.
  - Charitable deductions were generally preserved. The phaseout of itemized deductions based on income was eliminated.
  - The TCJA did not eliminate the individual alternative minimum tax, but it raised the exemption and exemption phaseout threshold for application of the tax.
  - These individual income tax changes were generally effective beginning in 2018, but without further legislation, they will sunset after 2025.
- Under the TCJA, individuals, trusts, and estates generally may deduct 20% of "qualified business income" (generally, domestic trade or business income other than certain investment items) of certain pass-through entities. In addition, "qualified REIT dividends" (i.e., REIT dividends other than capital gain dividends and portions of REIT dividends designated as qualified dividend income, which in each case are already eligible for capital gain tax rates) and certain other income items are eligible for the deduction by the taxpayer. The overall deduction is limited to 20% of the sum of the taxpayer's taxable income (less net capital gain) and certain cooperative dividends, subject to further limitations based on taxable income. In addition, for taxpayers with income above a certain threshold (e.g., $315,000 for joint return filers), the deduction for each trade or business is generally limited to no more than the greater of (i) 50% of the taxpayer's proportionate share of total wages from the pass-through entity, or (ii) 25% of the taxpayer's proportionate share of such total wages plus 2.5% of the unadjusted basis of acquired tangible depreciable property that is used to produce qualified business income and satisfies certain other requirements. The deduction for qualified REIT dividends is not subject to these wage and property basis limits. Consequently, the deduction equates to a maximum 29.6% tax rate on ordinary REIT dividends. As with the other individual income tax changes, the deduction provisions were effective beginning in 2018. Without further legislation, the deduction would sunset after 2025.
- Net operating loss, or NOL, provisions were modified by the TCJA. The TCJA limits the NOL deduction to 80% of taxable income (before the deduction). It also generally eliminates NOL carrybacks for individuals and non-REIT corporations (NOL carrybacks did not apply to REITs under prior law), but allows indefinite NOL carryforwards. The new NOL rules apply to losses arising in taxable years beginning in 2018.

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

U.S. Healthcare Regulation

Overview

Assisted living, independent living, memory care, hospitals, skilled nursing facilities and other healthcare providers that operate healthcare properties in our portfolio are subject to extensive federal, state and local laws, regulations and industry standards governing their operations. Failure to comply with any of these, and other, laws could result in loss of licensure, loss of certification or accreditation, denial of reimbursement, imposition of civil and/or criminal penalties and fines, suspension or exclusion from federal and state healthcare programs, or closure of the facility. Although the properties within our portfolio may be subject to varying levels of governmental scrutiny, we expect that the healthcare industry, in general, will continue to face increased regulation and pressure in the areas of fraud and abuse and privacy and security, among others. We also expect that efforts by third-party payors, such as the federal Medicare program, state Medicaid programs and private insurers, to impose greater and more stringent cost controls upon operators will intensify and continue. Changes in laws, regulations, reimbursement, and enforcement activity can all have a significant effect on the operations and financial condition of our tenants, operators and managers, which in turn may adversely impact us, as set forth below and under "Risk Factors" in our 2018 Form 10-K.

Fraud and Abuse Enforcement

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

Healthcare Reform

The Patient Protection and Affordable Care Act of 2010, or ACA, impacted the healthcare marketplace by decreasing the number of uninsured individuals in the United States through the establishment of health insurance exchanges to facilitate the purchase of health insurance, expanded Medicaid eligibility, subsidized insurance premiums and included requirements and incentives for businesses to provide healthcare benefits. The ACA remains subject to legislative, administrative, and judicial scrutiny. In 2017, Congress enacted legislation eliminating the tax penalty for individuals who do not purchase insurance after it unsuccessfully sought to replace substantial parts of the ACA with different mechanisms for facilitating insurance coverage in the commercial and Medicaid markets. Additionally, the Centers for Medicare and Medicaid Services, or CMS, discontinued payment of cost-sharing reduction subsidies to insurance providers. In 2018, the average annual premium for employer-based family coverage rose 5 percent and 3 percent for single coverage. Further, CMS has begun approving waivers permitting states to alter state Medicaid programs by, among other things, requiring individuals to meet certain requirements, like work requirements, in order to maintain eligibility for Medicaid (although some of these waivers have subsequently been challenged in court). These and other actions may impact the insurance markets and reduce the number of individuals purchasing insurance or qualifying for Medicaid and may negatively impact the operations and financial condition of our tenants, operators and managers, which in turn may adversely impact us. Congress may revisit ACA or Medicaid reform legislation in 2019. If the ACA is repealed or further substantially modified, or if implementation of certain aspects of the ACA are suspended, slowed, or subject to reduced funding, such actions could negatively impact the operations and financial condition of our tenants and operators, which in turn may adversely impact us.

On December 14, 2018, a U.S. District Court in Texas ruled the ACA unconstitutional in its entirety. This decision has been appealed, and will not take effect while that appeal is pending. Nonetheless, should this ruling be upheld upon appeal, it could dramatically change U.S. healthcare regulation in numerous ways and may potentially spur congressional action, making the ultimate consequences of the ruling difficult to predict. Should the ruling be upheld and implemented, the immediate effects would include reduced access to health coverage through: (1) reduced Medicaid eligibility, (2) the disestablishment of health insurance exchanges and accompanying subsidized premiums, and (3) no requirement for businesses to provide health insurance. Amendments, including certain waivers, to healthcare fraud and abuse laws made by the ACA would also be void, which could change the enforcement posture of federal regulators. Current healthcare reimbursement standards, including those discussed below, are predicated on changes made by the ACA and implementation of this ruling would create significant uncertainty regarding the legality of such standards and what standards are in effect absent the ACA. The effects of this ruling could adversely affect the operations and financial condition of our tenants and operators, which in turn may adversely impact us.

Reimbursement Generally

Federal, state and private payor reimbursement methodologies applied to healthcare providers continue to evolve. Federal and state healthcare financing authorities are continuing to implement new or modified reimbursement methodologies that shift risk to healthcare providers and generally reduce payments for services, which may negatively impact healthcare property operations. Additionally, Congress and the current presidential administration could substantially change the health insurance industry and payment systems. The impact of any such changes, if implemented, may result in an adverse effect on our tenants, managers and operators, which in turn may adversely impact us.

SNFs and hospitals typically receive most of their revenues from the Medicare and Medicaid programs, with the balance representing reimbursement payments from private payors, including private insurers and self-pay patients. Senior housing facilities (ALFs, ILFs and MCFs) typically receive most of their revenues from private pay sources and a small portion of their revenue from the Medicaid program. Providers that contract with government and private payors may be subject to periodic pre- and post-payment reviews and other audits. Payors are increasing their scrutiny of payments for items and services, and are increasingly decreasing or denying payments to providers. A review or audit of a property operator's claims could result in recoupments, denials or delay of payments in the future, each of which could have a significant negative financial impact on such property. Additionally, there can be no guarantee that a third-party payor will continue to reimburse for services at current levels or continue to be available to residents of our facilities. Rates generated at facilities will vary by payor mix, market conditions and resident acuity. Rates paid by self-pay residents are set by the facilities and are determined by local market conditions and operating costs.

Medicare Reimbursement

Medicare is a significant payor source for our SNFs and hospitals. SNFs are reimbursed under the Medicare Skilled Nursing Facility Prospective Payment System, while hospitals are reimbursed by Medicare under prospective payment systems that vary based upon the type of hospital, geographic location and service furnished. Under these payment systems, providers typically receive fixed fees for defined services, which creates a risk that payments will not cover the costs of delivering care. In addition, CMS continues to focus on linking payment to performance relative to quality and other metrics and bundling payments for multiple items and services in a way that shifts more financial risk to providers. These changes, and a facility's ability to conform to them, could reduce payments and patient volumes for some facilities, including our tenants and operators, which may in turn impact us. Furthermore, while CMS has previously tested some of these new payment principles through optional "models," CMS could adopt rules making certain detrimental payment policies mandatory. The current presidential administration could propose additional changes to the amount and manner in which healthcare providers are paid, and these changes also could have a material adverse effect on payments and patient volumes for some facilities. Lastly, Congress is contemplating substantial reforms to the Medicare program as a whole that, if enacted, could negatively impact the operations and financial condition of our tenants and operators, which in turn may adversely impact us.

Skilled Nursing Conditions for Participation - On October 4, 2016, CMS published a final rule to make major changes to improve the care and safety of residents in long-term care facilities that participate in the Medicare and Medicaid programs. The policies in this final rule were targeted at reducing unnecessary hospital readmissions and infections, improving the quality of care, and strengthening safety measures for residents in these facilities. The regulations were effective on November 28, 2016, but CMS has been implementing the regulations using a phased approach, with Phase 1 of the regulations implemented on November 28, 2016, Phase 2 of the regulations implemented on November 28, 2017 and Phase 3 of the regulations to be implemented on November 28, 2019. Failure of our tenants and operators to comply with the new regulations could have an adverse impact the operations and financial condition of our tenants and operators, which in turn may adversely impact us.

Skilled Nursing - In August 2018, CMS adopted a revised methodology used to compensate skilled nursing facilities for therapy services, which changes the core basis of reimbursement from duration of services provided to reimbursement based on anticipated patient needs; these changes will take effect on October 1, 2019. A tenant or operator of a SNF's ability to conform to these changes could positively or negatively impact the facility's revenue, which in turn may adversely impact us.

Medicaid Reimbursement

Medicaid is also a significant payor source for our SNFs and hospitals. The federal and state governments share responsibility for financing Medicaid. Within certain federal guidelines, states have a fairly wide range of discretion to determine Medicaid eligibility and reimbursement methodology. CMS, in part as a result of the change in leadership in the executive branch, has embraced a more flexible approach to state amendments and waivers that allow states even more latitude to determine eligibility and reimbursement. Certain states are attempting to slow the rate of growth in Medicaid expenditures by freezing rates or restricting eligibility and benefits; some states have elected not to expand their Medicaid eligibility criteria pursuant to the ACA. Some states are transitioning their Medicaid programs to managed care models, which rely on networks of contracted providers to provide services at reduced negotiated rates to a higher volume of patients than they might see absent the contract. Such changes may reduce the volume of Medicaid patients at facilities that do not participate in the managed care plan's network. Facilities that do participate may not receive a sufficient increase in patient volume to offset their lowered reimbursement rates. States and the federal government are also examining ways to further align Medicare reimbursement with quality metrics and other value-based payment models that might shift risk to or place additional compliance costs on facilities. Congress and the current presidential administration have sought to repeal and alter the ACA and substantially reform the Medicaid program. If successful, Congress may repeal the provisions of the ACA that encouraged states to expand Medicaid eligibility to more adults, including additional federal matching funds that enabled states to do so. Congress also might impose strict limits on the federal role in subsidizing the costs of state Medicaid programs. These actions, if enacted, could result in states reducing or eliminating eligibility for certain individuals and/or offsetting the cost by further reducing payments to providers of services. Congress is also considering enacting substantial reforms to Medicaid to grant states more autonomy and discretion to design Medicaid programs. These changes, if enacted, could also reduce or eliminate eligibility for certain individuals and/or allow states to further reduce payments to providers of services. In some states, our tenants and operators could experience delayed or reduced payment for services furnished to Medicaid enrollees, which in turn may adversely impact us. As noted above, ongoing litigation regarding the ACA and Medicaid waivers may also affect Medicaid coverage and reimbursement.

Licensure, CON, Certification and Accreditation

Hospitals, SNFs, senior housing facilities and other healthcare providers that operate healthcare properties in our portfolio may be subject to extensive state licensing and certificate of need, or CON, laws and regulations, which may restrict the ability of our tenants and operators to add new properties, expand an existing facility's size or services, or transfer responsibility for operating a particular facility to a new tenant, operator or manager. The failure of our tenants and operators to obtain, maintain or comply with any required license, CON or other certification, accreditation or regulatory approval (which could be required as a condition of third-party payor reimbursement) could result in loss of licensure, loss of certification or accreditation, denial of reimbursement, imposition of civil and/or criminal penalties and fines, suspension or exclusion from federal and state healthcare programs or closure of the facility, any of which could have an adverse effect on the operations and financial condition of our tenants, operators and managers, which in turn may adversely impact us.

Health Information Privacy and Security

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

Investment Company Act

We believe that we are not, and intend to conduct our operations so as not to become, regulated as an investment company under the Investment Company Act. We have relied, and intend to continue to rely, on current interpretations of the staff of the SEC in an effort to continue to qualify for an exemption from registration under the Investment Company Act. For more information on the exemptions that we use refer to "Risk Factors—*Maintenance of our Investment Company Act exemption imposes limits on our operations*."

Environmental Matters

A wide variety of federal, state and local environmental and occupational health and safety laws and regulations affect our properties. These complex federal and state statutes, and their enforcement, involve a myriad of regulations, many of which involve strict liability on the part of the potential offender. Some of these federal and state statutes may directly impact us. Under various federal, state and local environmental laws, ordinances and regulations, an owner of real property, such as us, may be liable for the costs of removal or remediation of hazardous or toxic substances at, under or disposed of in connection with such property, as well as other potential costs relating to hazardous or toxic substances (including government fines and damages for injuries to persons and adjacent property). The cost of any required remediation, removal, fines or personal or property damages and the owner's liability therefore could exceed or impair the value of the property and/or the assets of the owner. In addition, the presence of such substances, or the failure to properly dispose of or remediate such substances, may adversely affect the owner's ability to sell or rent such property or to borrow using such property as collateral which, in turn, could reduce our revenues.

ADA

Our properties must comply with the ADA and any similar state or local laws to the extent that such properties are "public accommodations" as defined in those statutes. The ADA may require removal of barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. To date, we have not received any notices of noncompliance with the ADA that have caused us to incur substantial capital expenditures to address ADA concerns. Should barriers to access by persons with disabilities be discovered at any of our properties, we may be directly or indirectly responsible for additional costs that may be required to make facilities ADA-compliant. Noncompliance with the ADA could result in the imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations pursuant to the ADA is an ongoing one and we continue to assess our properties and make modifications as appropriate in this respect.

Competition

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

Seasonality

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

Employees

As of December 31, 2018, we had no employees. Our Advisor or its affiliates provide management, acquisition, advisory, marketing, investor relations and certain administrative services for us.

Corporate Governance and Internet Address

We emphasize the importance of professional business conduct and ethics through our corporate governance initiatives. Our board of directors consists of a majority of independent directors. The audit committee of our board of directors is composed exclusively of independent directors. We have adopted corporate governance guidelines and a code of ethics, which delineate our standards for our officers and directors.

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

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS

Market Information

We completed our Initial Offering on February 2, 2015 and our Follow-On Offering on January 19, 2016. All of the shares initially registered in the Initial Offering and the Follow-On Offering were issued. There is no established public trading market for our shares of common stock. We do not expect that our shares will be listed for trading on a national securities exchange in the near future, if ever. Our board of directors will determine when, and if, to apply to have our shares of common stock listed for trading on a national securities exchange, subject to satisfying existing listing requirements. Our board of directors does not have a stated term for evaluating a listing on a national securities exchange as we believe setting a finite date for a possible, but uncertain future liquidity transaction may result in actions that are not necessarily in the best interest or within the expectations of our stockholders.

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

On November 28, 2018, upon the recommendation of the audit committee of our board of directors, our board of directors, including all of our independent directors, approved and established an estimated value per share of our common stock of $7.10 as of June 30, 2018, or the Valuation Date. The estimated value per share is based upon the estimated value of our assets less the estimated value of our liabilities, divided by the number of shares of our common stock outstanding, in each case as of the Valuation Date. The information used to generate the estimated value per share, including market information, investment- and property-level data and other information provided by third parties, was the most recent information practically available as of the Valuation Date.

As of the Valuation Date, (i) the estimated value of our healthcare real estate properties was $2.18 billion, compared with an aggregate initial purchase price, including subsequent capital expenditures, of $2.19 billion, (ii) the estimated value of our healthcare real estate investments held through unconsolidated joint ventures was $465.0 million, compared with an aggregate equity contribution, including subsequent capital contributions, of $524.0 million, (iii) the estimated value of our healthcare-related commercial real estate debt investment was $73.9 million, compared with an aggregate outstanding principal amount of $75.0 million, and (iv) the estimated value of our healthcare real estate liabilities was $1.42 billion, compared with an aggregate outstanding principal amount of $1.51 billion.

For additional information on the methodology used in calculating our estimated value per share as of June 30, 2018, refer to our Current Report on Form 8-K filed with the SEC on December 4, 2018.

It is currently anticipated that our next estimated value per share will be based upon our assets and liabilities as of June 30, 2019 and such value will be included in a Current Report on Form 8-K or such other filing with the SEC. We intend to continue to publish an updated estimated value per share annually.

Stockholders

As of March 21, 2019, we had 37,800 stockholders of record.

Distributions

The following table summarizes distributions declared for the years ended December 31, 2018, 2017 and 2016 (dollars in thousands):

Period	Distributions[1] Cash	DRP	Total
2018			
First Quarter	$ 7,684	$ 7,876	$ 15,560
Second Quarter	8,028	7,722	15,750
Third Quarter	8,374	7,567	15,941
Fourth Quarter	8,653	7,352	16,005
Total	$ 32,739	$ 30,517	$ 63,256
2017			
First Quarter	$ 14,228	$ 16,669	$ 30,897
Second Quarter	14,557	16,804	31,361
Third Quarter	14,899	16,873	31,772
Fourth Quarter	15,082	16,691	31,773
Total	$ 58,766	$ 67,037	$ 125,803
2016			
First Quarter	$ 13,408	$ 16,827	$ 30,235
Second Quarter	13,580	16,915	30,495
Third Quarter	13,974	17,120	31,094
Fourth Quarter	14,261	17,057	31,318
Total	$ 55,223	$ 67,919	$ 123,142

(1) Represents distributions declared for such period, even though such distributions are actually paid to stockholders the month following such period.

Distribution Reinvestment Plan

We adopted our DRP through which common stockholders may elect to reinvest an amount equal to the distributions declared on their shares in additional shares of our common stock in lieu of receiving cash distributions. The purchase price per share under our Initial DRP was $9.50. In connection with its determination of the offering price for shares of our common stock in our Follow-On Offering, the board of directors determined that distributions may be reinvested in shares of our common stock at a price of $9.69 per share, which was approximately 95% of the offering price of $10.20 per share established for purposes of our Follow-On Offering. In April 2016 and effective through January 31, 2019, 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

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

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

For the period from April 5, 2013 through December 31, 2018, we issued 25.0 million shares totaling $227.7 million of gross offering proceeds pursuant to our DRP.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We adopted our Share Repurchase Program effective August 7, 2012, as most recently amended in October 2018, which enables stockholders to sell their shares to us in limited circumstances. Under our current Share Repurchase Program, we only repurchase shares in connection with a stockholder's death or qualifying disability. A qualifying disability is a disability as such term is defined in Section 72(m)(7) of the Internal Revenue Code that arises after the purchase of the shares requested to be repurchased.

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 year ended December 31, 2018, 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	20,839	$ 9.91	20,839	(1)
February 1 to February 28	1,027,861	7.78	1,027,861	(1)
March 1 to March 31	—	—	—	
April 1 to April 30	—	—	—	
May 1 to May 31	1,002,908	7.84	1,002,908	(1)
June 1 to June 30	—	—	—	
July 1 to July 31	—	—	—	
August 1 to August 31	976,894	7.91	976,894	(1)
September 1 to September 30	—	—	—	
October 1 to October 31	—	—	—	
November 1 to November 30	247,420	8.50	247,420	(1)
December 1 to December 31	—	—	—	
Total	3,275,922	$ 7.91	3,275,922	

(1) Subject to funds being available, the limits under our Share Redemption Program were amended in October 2018, as described in further detail below.

Prior to the most recent amendments to our Share Repurchase Program, we had a total of 12.0 million shares, or $85.0 million, based on our most recently published estimated value per share of $7.10, in unfulfilled repurchase requests. For additional information, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments."

Unregistered Sales of Equity Securities

On November 30, 2018 and December 31, 2018, we issued 98,039 shares of common stock at $8.50 and $7.10 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.

SELECTED FINANCIAL DATA

The information below should be read in conjunction with "Forward-Looking Statements" in this Annual Report and "Risk Factors," in our 2018 Form 10-K, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes thereto included in "Financial Statements and Supplementary Data," included in this Annual Report.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands, except per share data)				
Operating Data:					
Resident fee income	$ 129,855	$ 127,180	$ 102,915	$ 63,056	$ 14,511
Rental income	159,481	155,700	132,108	28,456	8,038
Net interest income	9,031	14,141	18,970	17,763	7,490
Total revenues	303,302	299,916	255,578	111,216	30,039
Total expenses	441,934	404,149	334,887	149,791	34,125
Equity in earnings (losses) of unconsolidated ventures	(33,517)	(35,314)	(62,175)	(49,046)	(12,127)
Net income (loss)	(152,020)	(137,971)	(141,282)	(82,744)	(14,979)
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	(151,578)	(137,771)	(141,275)	(82,370)	(14,945)
Net income (loss) per share of common stock, basic/diluted	$ (0.81)	$ (0.74)	$ (0.77)	$ (0.63)	$ (0.38)
Distributions declared per share of common stock	$ 0.34	$ 0.68	$ 0.68	$ 0.68	$ 0.68

	As of December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$ 73,811	$ 50,046	$ 223,102	$ 354,229	$ 267,672
Operating real estate, net	1,778,914	1,852,428	1,571,980	832,253	259,409
Investments in unconsolidated ventures	264,319	325,582	360,534	534,541	215,175
Real estate debt investments, net	58,600	74,650	74,558	192,934	146,267
Senior housing mortgage loans held in a securitization trust, at fair value	—	545,048	553,707	—	—
Total assets	2,264,416	2,998,753	2,958,209	2,002,228	917,104
Mortgage and other notes payable, net	1,466,349	1,487,480	1,200,982	570,985	74,355
Senior housing mortgage obligations issued by a securitization trust, at fair value	—	512,772	522,933	—	—
Due to related party	5,675	1,046	219	443	755
Total liabilities	1,520,042	2,053,954	1,766,235	596,728	85,119
Total equity	744,374	944,799	1,191,974	1,405,500	831,985

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Other Data:					
Cash flow provided by (used in):					
Operating activities	$ 27,986	$ 10,129	$ 5,376	$ (7,594)	$ 188
Investing activities	73,948	(314,394)	(60,355)	(1,063,403)	(577,407)
Financing activities	(87,914)	132,861	(62,970)	1,164,623	806,158

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto included in "Financial Statements and Supplementary Data" and the risk factors included in "Risk Factors" of our 2018 Form 10-K. References to "we," "us" or "our" refer to NorthStar Healthcare Income, Inc. and its subsidiaries unless the context specifically requires otherwise.

Introduction

We have invested in independent living facilities, or ILF, assisted living facilities, or ALF, memory care facilities, or MCF, continuing care retirement communities, or CCRC, which we collectively refer to as senior housing facilities, skilled nursing facilities, or SNF, medical office buildings, or MOB, and hospitals.

Our primary investment segments are as follows:

- Direct Investments - Net Lease - Healthcare properties operated under net leases with a single tenant operator.
- Direct Investments - Operating - Healthcare properties operated pursuant to management agreements with healthcare operators.
- Unconsolidated Investments - Healthcare joint ventures, including properties operated under net leases or pursuant to management agreements with healthcare operators, in which we own a minority interest.
- Debt and Securities Investments - Mortgage loans or mezzanine loans to owners of healthcare real estate and commercial mortgage backed securities, or CMBS, backed primarily by loans secured by healthcare properties.

For information regarding our investments as of December 31, 2018, refer to "Our Investments" included in "Business" in this Annual Report.

2018 Significant Developments

Performance Summary

During the year ended December 31, 2018, the operating real estate in our direct investment portfolios experienced a decline in performance as compared to prior year results. On a same store basis (which excludes properties placed in service during 2018 and 2017), rental and resident fee income, net of property operating expenses, of our direct operating investments decreased to $59.5 million for the year ended December 31, 2018 as compared to $72.5 million for the year ended December 31, 2017.

Specifically, our direct operating investments were negatively impacted by the following:

- Ongoing, industry-wide declines in occupancy and rate increases predominantly as a result of supply growth;
- Tightening labor markets and select statutory wage increases resulting in expense increases for labor and benefits; and
- Disruptions and related expenses due to operator transitions, particularly for the Winterfell portfolio transition that began in November 2017 and the Rochester portfolio operator transition that began upon acquisition in 2017. Elevated expenses and operational disruptions continue to impact operating performance after completion of the transitions.

Similarly, the operating real estate in our unconsolidated investment portfolios collectively experienced a decline in operational performance during the year ended December 31, 2018. Our unconsolidated investments include significant exposure to skilled nursing, which continues to experience challenges in the face of regulatory uncertainties, a deteriorating payor mix and lower average reimbursement rates, in addition to the labor market challenges faced by the senior housing sector. In particular, our investments in the Espresso portfolio experienced adverse impacts related to occupancy and rate deterioration, which, in select instances, resulted in the need to execute operator transitions. Further, restrictions on cash distributions in the Espresso portfolio, and overall decreases in cash flow from our unconsolidated ventures, continue to impact our liquidity position.

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

Investments and Dispositions

- In March 2018, we sold our investment in the Freddie Mac securitization, generating net proceeds of $35.8 million. We originally purchased the investment for $30.5 million.

- In March 2018, we contributed $4.5 million to the Trilogy portfolio for development initiatives, including senior housing campus development. During the year ended December 31, 2018, we received distributions from Trilogy totaling $6.0 million.
- In August 2018, we completed the disposition of Fountains at Franklin, a non-core, consolidated operating property within the Watermark Fountains portfolio. The sales price of $12.0 million generated net proceeds of $2.7 million to the joint venture, after repayment of mortgage debt and transaction costs.
- 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 American Healthcare Investors, LLC, or AHI.

Liquidity, Capital and Dividends

- In January 2018, we made a partial repayment to the Peregrine mortgage loan totaling $6.4 million, which released one property from the collateral pool.
- In March 2018, we amended our revolving line of credit from an affiliate of our Sponsor, or our Sponsor Line, to extend the maturity consistent with the Corporate Facility and make other conforming changes to the events of default.
- In August 2018, in connection with the property sale in the Watermark Fountains portfolio, we repaid a mortgage note payable of $9.0 million.
- In October 2018, our board of directors approved an amended and restated Share Repurchase Program, under which we will only repurchase shares in connection with the death or qualifying disability of a stockholder.
- In November 2018, our board of directors approved and established an estimated value per share of our common stock of $7.10 as of June 30, 2018.
- Our board of directors approved a daily cash distribution of $0.000924658 per share of common stock during the year ended December 31, 2018. Effective February 1, 2019, our board of directors determined to suspend distributions in order to preserve capital and liquidity.

Portfolio

- In February 2018, we began the transition of operations of the Avamere portfolio from the former manager, an affiliate of Bonaventure Senior Living, to a new manager, Avamere.
- In October 2018, we completed the development and construction of the memory care facility adjacent to the Pinebrook facility, adding an additional 40 beds to the portfolio.
- During 2018, the Espresso joint venture executed operator transitions, which included the sale of one operating facility.
- The Winterfell portfolio's average occupancy of approximately 80% during 2018 remains below the 89% average occupancy achieved in 2017. This portfolio represents 32 of the 49 communities that underwent tenant, manager and/or operator transitions within our direct investment portfolios beginning in 2017 and continuing into early 2018.
- The portfolios managed by Watermark Retirement Communities maintained an overall average occupancy of approximately 84% during 2018 and 2017. Our management team is working closely with our operating partners to implement focused and strategic plans to increase occupancy and improve performance in this challenging market.
- During 2018, impairment losses totaling $36.3 million were recorded due to performance issues at properties within the Winterfell, Kansas City and Peregrine portfolios, as well as to reflect net realizable value of properties designated as held for sale.

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 and securities investments. 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 income statements.

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

Healthcare Markets

The healthcare real estate equity and finance markets tend to attract new equity and debt capital more slowly than more traditional commercial real estate property types because of barriers to entry for new investors or lenders to healthcare property owners. 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. While these competitive constraints may create opportunities for attractive investments in the healthcare property sector, they may also provide challenges and risks when seeking attractive terms for our investments.

Publicly traded healthcare REITs have experienced recent decreases in stock price as underlying same-store metrics and coverage ratios were generally below expectations and guidance on performance was cautious. However, longer-term demographics remain favorable, with potential for future increases to valuations.

We believe 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 47.8 million in 2015 to 79.2 million in 2035 (source: U.S. Census Bureau 2014 National Population Projections), and the increasing demand for care for seniors outside of their homes. As a result of these demographic trends, we expect healthcare costs to increase at a faster rate than the available funding from both private sources and government-sponsored healthcare programs. Healthcare spending in the U.S. is projected to increase from $2.6 trillion in 2010 to $4.1 trillion in 2020 (source: CMS) and, as healthcare costs increase, insurers, individuals and the U.S. government are pursuing lower cost options for healthcare, and senior housing facilities, such as ALF, MCF, SNF and ILF, 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 growth in the industry and demographics, economic and healthcare market uncertainty has had a negative impact, weakening the market's fundamentals and ultimately reducing tenants/operators' ability to make rent payments in accordance with the contractual terms of the lease, as well as reduced income for our operating investments. In addition, increased development and competitive pressures has had an impact on some of our assets. During the fourth quarter of 2018, senior housing occupancy increased slightly as having been flat or in decline 11 consecutive quarters (source: NIC). For the entirety of 2018, both inventory growth and absorption of seniors housing units reached record levels; however net absorption only amounted to 68% of inventory growth (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 and the borrowers' ability to service their outstanding loans and repay the loans at maturity.

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.

Further third-party payor rules and regulatory changes that are being implemented by the federal and even some state governments and commercial payors to improve quality of care and control healthcare spending may continue to affect reimbursement and increase operating costs to our operators and tenants. For example, CMS updated Medicare payments to SNFs by 1.0% under the prospective payment system for federal fiscal year 2018, as compared to the 2.4% increase for the federal fiscal year 2017. CMS has also implemented quality reporting programs and SNFs that fail to submit the required quality data to CMS are subject to payment reductions. Further, in 2016, CMS adopted new regulations, or the Final Rule, that significantly revised the conditions of participation in Medicare and Medicaid for long-term care providers. Phase 2 of the Final Rule became effective on November 28, 2017 and Phase 3 becomes effective November 28, 2019. Implementing and complying with the Final Rule has created additional operating burdens and increased expenses on the industry. We continue to monitor reimbursement program requirements and assess the potential impact that changes in the political environment may have on such programs and the ability of our tenants/operators to meet their payment obligations.

Despite the barriers and constraints to investing in the senior housing sector, demographic and other market dynamics continue to attract investors and capital to the sector. The supply and demand fundamentals that are driven by the increasing need for healthcare services by an aging population have created investment opportunities for investors and thus acquisition activity within the sector continues to be strong.

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 "Financial Statements and Supplementary Data."

Recent Accounting Pronouncements

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

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.

As of December 31, 2018, we have impaired our direct investments as follows:

- *Winterfell portfolio*. Impairment totaling $24.0 million was recorded for two facilities as a result of sustained declines in occupancy.
- *Kansas City portfolio.* Impairment totaling $4.4 million was recorded for two facilities as a result of poor operating performance.
- *Peregrine portfolio*. Impairment totaling $10.1 million, was recorded for two facilities as a result of deteriorating operating results of the tenant and reclassification of a facility as held for sale.
- *Watermark portfolio.* Impairment totaling $2.8 million to reflect net realizable value as a result of designating a property and its operations as held for sale. The property was sold in August 2018.

As of December 31, 2018, the unconsolidated ventures in which we invest have recorded impairments and reserves. Our proportionate ownership share of a loan loss reserve within our Espresso portfolio totaled $11.4 million and was recognized through equity in earnings (losses) during the year ended December 31, 2017. During the third quarter of 2017, the Espresso sub-portfolio associated with the direct financing lease commenced an operator transition and determined certain future cash flows of the direct financing lease to be uncollectible. The cash flows deemed to be uncollectible primarily impact distributions on mandatorily redeemable units issued at the time of the original acquisition that allowed the seller to participate in certain future cash flows from the direct financing lease following the closing of the original acquisition. Pursuant to ASC 480, *Distinguishing Liabilities from Equity*, the redemption value of the corresponding unconsolidated venture's liability for the units issued to the seller was not assessed until the termination of the lease, which occurred in the third quarter of 2018. As a result of the lease termination, the unconsolidated venture determined the value of the liability for the units issued to the seller to be zero and recognized a gain on the extinguishment of the liability, of which our proportionate share totaled $14.1 million. Further, upon termination of the lease, the direct financing lease assets were reclassified to operating real estate and recorded at the lower of cost or fair value, resulting in an impairment, of which our proportionate share totaled $13.9 million.

In addition to the impairment and reserves referenced above, our Espresso portfolio recorded an additional loan loss reserve for a separate sub-portfolio during the fourth quarter of 2018, of which our proportionate share totaled $13.9 million.

Our Griffin-American joint venture has $1.7 billion of non-recourse mortgage debt on certain properties in the joint venture that matures in December 2019. Our Sponsor, which is an equity partner in the Griffin-American joint venture, is currently evaluating options in connection with the December 2019 scheduled maturity of this debt, of which our proportionate share is approximately $246 million. In connection with pursuing the options available, the joint venture has re-evaluated certain assumptions, including the holding period of the real estate assets collateralizing the debt, which has resulted in impairment of these assets, of which our proportionate share totaled $7.7 million. As of December 31, 2018, the carrying value for our investment in the Griffin-American joint venture was $114.0 million.

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 and if required.

Results of Operations

Comparison of the Year Ended December 31, 2018 to December 31, 2017 (dollars in thousands):

	Year Ended December 31,		Increase (Decrease)	
	2018	**2017**	**Amount**	**%**
Property and other revenues				
Resident fee income	$ 129,855	$ 127,180	$ 2,675	2.1 %
Rental income	159,481	155,700	3,781	2.4 %
Other revenue	4,935	2,895	2,040	70.5 %
Total property and other revenues	294,271	285,775	8,496	3.0 %
Net interest income				
Interest income on debt investments	7,706	7,696	10	0.1 %
Interest income on mortgage loans held in a securitized trust	5,149	25,955	(20,806)	(80.2)%
Interest expense on mortgage obligations issued by a securitization trust	(3,824)	(19,510)	15,686	(80.4)%
Net interest income	9,031	14,141	(5,110)	(36.1)%
Expenses				
Real estate properties - operating expenses	188,761	163,837	24,924	15.2 %
Interest expense	70,196	61,082	9,114	14.9 %
Other expenses related to securitization trust	811	3,922	(3,111)	(79.3)%
Transaction costs	888	9,407	(8,519)	(90.6)%
Asset management and other fees-related party	23,478	41,954	(18,476)	(44.0)%
General and administrative expenses	14,390	13,488	902	6.7 %
Depreciation and amortization	107,133	105,459	1,674	1.6 %
Impairment loss	36,277	5,000	31,277	625.5 %
Total expenses	441,934	404,149	37,785	9.3 %
Other income (loss)				
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net	—	1,503	(1,503)	(100.0)%
Realized gain (loss) on investments and other	20,243	116	20,127	17,350.9 %
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	(118,389)	(102,614)	(15,775)	15.4 %
Equity in earnings (losses) of unconsolidated ventures	(33,517)	(35,314)	1,797	(5.1)%
Income tax benefit (expense)	(114)	(43)	(71)	165.1 %
Net income (loss)	$ (152,020)	$ (137,971)	$ (14,049)	10.2 %

Revenues

Resident Fee Income

The following table presents resident fee income generated during the year ended December 31, 2018 as compared to the year ended December 31, 2017 (dollars in thousands):

	Year Ended December 31,		Increase (Decrease)	
	2018	2017	Amount	%
Same store AL/MC/CCRC properties (placed in service - 2016 and prior)	$ 102,704	$ 99,590	$ 3,114	3.1 %
Properties placed in service - 2017	21,546 (1)	19,706	1,840	9.3 %
Properties placed in service - 2018	81	—	81	NA
Properties sold	5,524	7,884	(2,360)	(29.9)%
Total resident fee income	$ 129,855	$ 127,180	$ 2,675	2.1 %

(1) Includes resident fee income generated from our Kansas City portfolio, which transitioned from a net leased portfolio to an operating portfolio during the year ended December 31, 2017.

Resident fee income increased $2.7 million primarily as a result of occupancy and billing rates improvements for the Watermark Aqua and Fountains portfolios on a same store basis.

Rental Income

The following table presents rental income generated during the year ended December 31, 2018 as compared to the year ended December 31, 2017 (dollars in thousands):

	Year Ended December 31,		Increase (Decrease)	
	2018	2017	Amount	%
Same store IL properties (placed in service - 2016 and prior)	$ 102,925	$ 111,638	$ (8,713)	(7.8)%
Same store net lease properties (placed in service - 2016 and prior)	34,274	34,798	(524)	(1.5)%
Properties placed in service - 2017	22,282	9,264	13,018	140.5 %
Total rental income	$ 159,481	$ 155,700	$ 3,781	2.4 %

Rental income increased $3.8 million primarily as a result of the Rochester portfolio acquisition, which closed during the third and fourth quarters of 2017. On a same store basis, rental income declined primarily due to a decrease in the average occupancy for the Winterfell portfolio, which decreased to approximately 80% for the year ended December 31, 2018 as compared to approximately 89% for the year ended December 31, 2017.

Other Revenue

Other revenue increased $2.0 million and primarily represents additional revenue recognized from non-recurring services and fees at our operating facilities as well as interest earned on uninvested cash.

Net Interest Income

Net interest income decreased $5.1 million primarily as a result of the sale of our investment in the Freddie Mac securitization in the first quarter of 2018.

Expenses

Real Estate Properties - Operating Expenses

The following table presents property operating expenses incurred during the year ended December 31, 2018 as compared to the year ended December 31, 2017 (dollars in thousands):

	Year Ended December 31,		Increase (Decrease)	
	2018	2017	Amount	%
Same store (placed in service - 2016 and prior)				
AL/MC/CCRC properties	$ 72,815	$ 70,622	$ 2,193	3.1 %
IL properties	73,312	68,116	5,196	7.6 %
Net lease properties	1,346 (1)	31	1,315	4,241.9 %
Properties placed in service - 2017	36,005 (2)	18,085	17,920	99.1 %
Properties placed in service - 2018	261	14	247	1,764.3 %
Properties sold	5,022	6,969	(1,947)	(27.9)%
Total property operating expenses	$ 188,761	$ 163,837	$ 24,924	15.2 %

(1) Primarily reserves for uncollectible rents from our net lease properties.
(2) Includes operating expenses incurred by our Kansas City portfolio, which transitioned from a net leased portfolio to an operating portfolio during the year ended December 31, 2017.

Property operating expenses increased $24.9 million, primarily as a result of real estate portfolios acquired during 2017. On a same store basis, property operating expenses increased primarily as a result of rising labor and benefits costs.

Interest Expense

The following table presents interest expense incurred during the year ended December 31, 2018 as compared to the year ended December 31, 2017 (dollars in thousands):

	Year Ended December 31,		Increase (Decrease)	
	2018	2017	Amount	%
Same store (placed in service - 2016 and prior)				
AL/MC/CCRC properties	$ 16,056	$ 12,762	$ 3,294	25.8 %
IL properties	30,373	30,108	265	0.9 %
Net lease properties	13,326	12,266	1,060	8.6 %
Properties placed in service - 2017	9,923	5,478	4,445	81.1 %
Properties sold	243	394	(151)	(38.3)%
Corporate	275	74	201	271.6 %
Total interest expense	$ 70,196	$ 61,082	$ 9,114	14.9 %

Interest expense increased $9.1 million, primarily as a result of mortgage and seller financing obtained for 2017 acquisitions. On a same store basis, additional financing obtained for the Watermark Fountains portfolio in December 2017 resulted in an increase to interest expense.

Other Expenses Related to Securitization Trust

Other expenses related to securitization trust decreased $3.1 million as a result of the sale of our investment in the Freddie Mac securitization in the first quarter of 2018. Securitization trust expenses were primarily comprised of fees paid to Freddie Mac, the original issuer, as guarantor of the interest and principal payments related to the investment grade securitization bonds.

Transaction Costs

Transaction costs for the year ended December 31, 2018 are primarily a result of the residual costs incurred for the Winterfell and Avamere operator transition. Transaction costs for the year ended December 31, 2017 are primarily the result of the Rochester portfolio acquisition, which closed in the third and fourth quarters of 2017.

Asset Management and Other Fees - Related Party

Asset management and other fees - related party decreased $18.5 million primarily as a result of the December 2017 amendment to the advisory agreement which became effective during the first quarter of 2018. The amended advisory agreement reduced the monthly asset management fee and eliminated acquisition fees paid to the advisor.

General and Administrative Expenses

General and administrative expenses increased $0.9 million, primarily as a result of higher direct corporate expenses, including legal, accounting and other professional fees, partially offset by lower corporate overhead costs incurred during the year ended December 31, 2018.

Depreciation and Amortization

The following table presents depreciation and amortization expense incurred during the year ended December 31, 2018 as compared to the year ended December 31, 2017 (dollars in thousands):

	Year Ended December 31,		Increase (Decrease)	
	2018	2017	Amount	%
Same store (placed in service - 2016 and prior)				
AL/MC/CCRC properties	$ 12,728	$ 12,097	$ 631	5.2 %
IL properties	62,677	62,127	550	0.9 %
Net lease properties	13,693	13,127	566	4.3 %
Properties placed in service - 2017	17,903	17,520	383	2.2 %
Properties placed in service - 2018	27	—	27	NA
Properties sold	105	588	(483)	(82.1)%
Total depreciation and amortization expense	$ 107,133	$ 105,459	$ 1,674	1.6 %

Depreciation and amortization expense increased $1.7 million, primarily as a result of real estate portfolios acquired during 2017 and capital improvements funded on same store portfolios.

Impairment Loss

During the year ended December 31, 2018, impairment losses totaling $36.3 million were recorded due to performance issues at properties within the Winterfell, Kansas City and Peregrine portfolios, as well as to reflect net realizable value of properties designated as held for sale.

During the year ended December 31, 2017, impairment loss of $5.0 million was recorded a facility within the Peregrine net lease portfolio, due to deteriorating operating results of the tenant.

Other Income (Loss)

Unrealized Gain (Loss) on Senior Housing Mortgage Loans and Debt Held in Securitization Trust, Net

During the year ended December 31, 2017, unrealized gain of $1.5 million on senior housing mortgage loans and debt held in a securitization trust represents the change in the fair value of the consolidated assets and liabilities of our investment in the Freddie Mac securitization. There was no unrealized gain recognized for the year ended December 31, 2018 as a result of the disposal of the investment.

Realized Gain (Loss) on Investments and Other

During the year ended December 31, 2018, realized gain (loss) on investments and other of $20.2 million is primarily a result of gains recognized from the sales of our investments in the Trilogy portfolio and Freddie Mac securitization.

Equity in Earnings (Losses) of Unconsolidated Ventures and Income Tax Benefit (Expense)

Equity in Earnings (Losses) of Unconsolidated Ventures (dollars in thousands):

	Year Ended December 31,									
	2018	2017	2018	2017	2018	2017			2018	2017
Portfolio	Equity in Earnings (Losses)		Select Revenues and Expenses, net[(1)]		Equity in Earnings, Net of Select Revenues and Expenses		Increase (Decrease)		Cash Distributions	
Eclipse	$ (624)	$ (1,562)	$ (2,280)	$ (3,401)	$ 1,656	$ 1,839	$ (183)	(10.0)%	$ 754	$ 1,227
Envoy	(37)	(934)	(301)	(1,349)	264	415	(151)	(36.4)%	283	427
Griffin-American	(12,717)	(6,885)	(24,780)	(18,728)	12,063	11,843	220	1.9 %	5,553	8,505
Espresso	(21,460)	(20,737)	(26,906)	(32,752)	5,446	12,015	(6,569)	(54.7)%	—	3,307
Trilogy	1,153	(5,224)	(14,810)	(23,193)	15,963	17,969	(2,006)	(11.2)%	5,977	—
Subtotal	$ (33,685)	$ (35,342)	$ (69,077)	$ (79,423)	$ 35,392	$ 44,081	$ (8,689)	(19.7)%	$ 12,567	$ 13,466
Operator Platform[(2)]	168	28	—	—	168	28	140	500.0 %	107	—
Total	$ (33,517)	$ (35,314)	$ (69,077)	$ (79,423)	$ 35,560	$ 44,109	$ (8,549)	(19.4)%	$ 12,674	$ 13,466

(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.

Equity in earnings (losses) of unconsolidated ventures decreased $1.8 million, primarily due to one-time events in our investment in the Espresso joint venture, including a liability extinguishment gain recognized during the year ended December 31, 2018 and a loan loss reserve recognized during the year ended December 31, 2017. The liability extinguishment gain and the loan loss reserve totaled $14.1 million and $11.4 million, respectively. For additional information, refer to "—Impairment."

Equity in earnings, net of select revenues and expenses, decreased $8.5 million primarily due to the Espresso portfolio, which has experienced three operator transitions, resulting in a decrease in rental income.

Income Tax Benefit (Expense)

Income tax expense for the year ended December 31, 2018 was $114,000 and related to our operating properties, which operate through a taxable REIT subsidiary structure. Income tax expense for the year ended December 31, 2017 was $43,000.

Comparison of the Year Ended December 31, 2017 to December 31, 2016 (dollars in thousands):

	Year Ended December 31,		Increase (Decrease)	
	2017	2016	Amount	%
Property and other revenues				
Resident fee income	$ 127,180	$ 102,915	$ 24,265	23.6 %
Rental income	155,700	132,108	23,592	17.9 %
Other revenue	2,895	1,585	1,310	82.6 %
Total property and other revenues	285,775	236,608	49,167	20.8 %
Net interest income				
Interest income on debt investments	7,696	17,720	(10,024)	(56.6)%
Interest income on mortgage loans held in a securitized trust	25,955	5,022	20,933	416.8 %
Interest expense on mortgage obligations issued by a securitization trust	(19,510)	(3,772)	(15,738)	417.2 %
Net interest income	14,141	18,970	(4,829)	(25.5)%
Expenses				
Real estate properties - operating expenses	163,837	129,954	33,883	26.1 %
Interest expense	61,082	50,243	10,839	21.6 %
Other expenses related to securitization trust	3,922	765	3,157	412.7 %
Transaction costs	9,407	2,204	7,203	326.8 %
Asset management and other fees-related party	41,954	45,092	(3,138)	(7.0)%
General and administrative expenses	13,488	24,843	(11,355)	(45.7)%
Depreciation and amortization	105,459	81,786	23,673	28.9 %
Impairment loss	5,000	—	5,000	NA
Total expenses	404,149	334,887	69,262	20.7 %
Other income (loss)				
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net	1,503	298	1,205	404.4 %
Realized gain (loss) on investments and other	116	600	(484)	(80.7)%
Gain (loss) on consolidation of unconsolidated venture (refer to Note 3)	—	6,408	(6,408)	(100.0)%
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	(102,614)	(72,003)	(30,611)	42.5 %
Equity in earnings (losses) of unconsolidated ventures	(35,314)	(62,175)	26,861	(43.2)%
Income tax benefit (expense)	(43)	(7,104)	7,061	(99.4)%
Net income (loss)	$ (137,971)	$ (141,282)	$ 3,311	(2.3)%

Revenues

Resident Fee Income

The following table presents resident fee income generated during the year ended December 31, 2017 as compared to the year ended December 31, 2016 (dollars in thousands):

	Year Ended December 31,		Increase (Decrease)	
	2017	2016	Amount	%
Same store portfolios (placed in service - 2015 and prior)	$ 104,841	$ 102,773	$ 2,068	2.0%
Portfolios placed in service - 2016	2,633	142	2,491	1,754.2%
Portfolio placed in service - 2017	19,706 (1)	—	19,706	100.0%
Total resident fee income	$ 127,180	$ 102,915	$ 24,265	23.6%

(1) Includes resident fee income generated from our Kansas City portfolio, which transitioned from a net leased portfolio to an operating portfolio during the year ended December 31, 2017.

Resident fee income increased $24.3 million primarily as a result of the Oak Cottage and Avamere portfolio acquisitions, which closed during the first quarter of 2017. Additionally, the completion of expansion projects in the Watermark Aqua portfolio during the fourth quarter of 2016 contributed to the increase.

Rental Income

The following table presents rental income generated during the year ended December 31, 2017 as compared to the year ended December 31, 2016 (dollars in thousands):

	Year Ended December 31,		Increase (Decrease)	
	2017	2016	Amount	%
Same store portfolios (placed in service - 2015 and prior)	$ 34,798	$ 33,974	$ 824	2.4%
Portfolios placed in service - 2016	111,638	96,685	14,953	15.5%
Portfolio placed in service - 2017(1)	9,264	1,449 (1)	7,815	539.3%
Total rental income	$ 155,700	$ 132,108	$ 23,592	17.9%

(1) Includes rental income generated from our Kansas City portfolio, which transitioned from a net leased portfolio to an operating portfolio during the year ended December 31, 2017.

Rental income increased $23.6 million primarily as a result of the Rochester portfolio acquisition, which closed during the third and fourth quarters of 2017, and a full year of reported operations for the Winterfell portfolio, which was 100% owned and consolidated in our statements of operations beginning March 2016. Occupancy rates in 2017 for the Winterfell portfolio decreased as compared to 2016, reducing rent received and partially offsetting the overall increase to rental income.

Other Revenue

Other revenue increased $1.3 million primarily as a result of additional revenue recognized from non-recurring services and fees at our operating facilities as well as interest earned on uninvested cash.

Net Interest Income

Net interest income decreased $4.8 million primarily as a result of the repayment of three debt investments in the fourth quarter of 2016, partially offset by income earned from our investment in the Class B certificates of a securitization trust, or the Freddie Investment.

Expenses

Real Estate Properties - Operating Expenses

The following table presents property operating expenses incurred during the year ended December 31, 2017 as compared to the year ended December 31, 2016 (dollars in thousands):

	Year Ended December 31,		Increase (Decrease)	
	2017	2016	Amount	%
Same store portfolios (placed in service - 2015 and prior)	$ 74,569	$ 72,192	$ 2,377	3.3%
Portfolios placed in service - 2016	71,184	57,230	13,954	24.4%
Portfolio placed in service - 2017	18,084	532 (1)	17,552	3,299.2%
Total property operating expenses	$ 163,837	$ 129,954	$ 33,883	26.1%

(1) Includes operating expenses incurred by our Kansas City portfolio, which transitioned from a net leased portfolio to an operating portfolio during the year ended December 31, 2017.

Property operating expenses increased $33.9 million, primarily as a result of real estate portfolios acquired during 2017. Additionally, a full year of reported operations in 2017 for the Winterfell portfolio and Watermark Aqua portfolio expansion projects contributed to the year-over-year increase. The Winterfell portfolio was 100% owned and consolidated in our statement of operations beginning March 2016, while the Watermark Aqua portfolio expansion projects were completed in the fourth quarter of 2016.

Interest Expense

The following table presents interest expense incurred during the year ended December 31, 2017 as compared to the year ended December 31, 2016 (dollars in thousands):

	Year Ended December 31,		Increase (Decrease)	
	2017	2016	Amount	%
Same store portfolios (placed in service - 2015 and prior)	$ 25,491	$ 24,930	$ 561	2.3%
Portfolios placed in service - 2016	30,108	25,313	4,795	18.9%
Portfolio placed in service - 2017	5,483	—	5,483	NA
Total interest expense	$ 61,082	$ 50,243	$ 10,839	21.6%

Interest expense increased $10.8 million, primarily as a result of mortgage and seller financing obtained for real estate portfolios acquired during 2017 and the amortization of below market debt resulting from the finalization of the purchase price allocation of the Winterfell portfolio.

Other Expenses Related to Securitization Trust

Other expenses related to securitization trust increased $3.2 million as a result of acquiring the Freddie Investment in the fourth quarter of 2016. Securitization trust expenses were primarily comprised of fees paid to Freddie Mac, the original issuer, as guarantor of the interest and principal payments related to the investment grade securitization bonds.

Transaction Costs

Transaction costs for the year ended December 31, 2017 were primarily a result of the Avamere, Oak Cottage and Rochester portfolio acquisitions, and operator transitions. Transaction costs for the year ended December 31, 2016 were primarily a result of the acquisition of the remaining 60% equity interest in the Winterfell portfolio in March 2016 and professional fees incurred to finalize certain purchase price allocations related to 2016 and 2015 investment activities.

Asset Management and Other Fees - Related Party

Asset management and other fees - related party decreased $3.1 million primarily as a result of a decrease in acquisition fees incurred to acquire portfolios in 2017, partially offset by higher asset management fees from increased invested assets subsequent to December 31, 2016.

General and Administrative Expenses

General and administrative expenses were incurred at the corporate level and include auditing and professional fees, director fees, and other costs associated with operating our business. General and administrative expenses decreased $11.4 million, primarily as a result of lower overhead costs incurred for the year ended December 31, 2017, as well as the full payment of previously unallocated operating costs paid by our Advisor on our behalf during 2016.

Depreciation and Amortization

The following table presents depreciation and amortization expense incurred during the year ended December 31, 2017 as compared to the year ended December 31, 2016 (dollars in thousands):

	Year Ended December 31,		Increase (Decrease)	
	2017	2016	Amount	%
Same store portfolios (placed in service - 2015 and prior)	$ 25,260	$ 30,953	$ (5,693)	(18.4)%
Portfolios placed in service - 2016	62,679	50,460	12,219	24.2 %
Portfolio placed in service - 2017	17,520	373	17,147	4,597.1 %
Total depreciation and amortization expense	$ 105,459	$ 81,786	$ 23,673	28.9 %

Depreciation and amortization expense increased $23.7 million, primarily as a result of real estate portfolios acquired during 2017 as well as of the acquisition of the remaining 60.0% equity interest in the Winterfell portfolio in March 2016 and finalization of the purchase price allocation in the first quarter of 2017. This increase was partially offset by the full amortization of intangible assets for portfolios acquired in prior years.

Impairment of operating real estate

During the year ended December 31, 2017, impairment loss of $5.0 million was recorded related to a property within the Peregrine net lease portfolio, due to deteriorating operating results of the tenant. There was no impairment losses on real estate investments recorded during the year ended December 31, 2016.

Other Income (Loss)

Unrealized Gain (loss) on Senior Housing Mortgage Loans and Debt Held in Securitization Trust, Net

Unrealized gain of $1.2 million on senior housing mortgage loans and debt held in a securitization trust represents the change in the fair value of the consolidated assets and liabilities of the Freddie Mac securitization.

Equity in Earnings (Losses) of Unconsolidated Ventures and Income Tax Benefit (Expense)

Equity in Earnings (Losses) of Unconsolidated Ventures (dollars in thousands):

	Year Ended December 31,									
	2017	2016	2017	2016	2017	2016			2017	2016
Portfolio	Equity in Earnings (Losses)		Select Revenues and Expenses, net(1)		Equity in Earnings, Net of Select Revenues and Expenses		Increase (Decrease)		Cash Distributions	
Eclipse	$ (1,562)	$ 528	$ (3,401)	$ (1,807)	$ 1,839	$ 2,335	$ (496)	(21.2)%	$ 1,227	$ 1,963
Envoy	(934)	980	(1,349)	455	415	525	(110)	(21.0)%	427	267
Griffin-American	(6,885)	(7,847)	(18,728)	(24,048)	11,843	16,201	(4,358)	(26.9)%	8,505	24,795
Winterfell(2)	—	1,423	—	(161)	—	1,584	(1,584)	(100.0)%	—	591
Espresso(3)	(20,737)	(5,388)	(32,752)	(14,194)	12,015	8,806	3,209	36.4 %	3,307	7,162
Trilogy	(5,224)	(51,871)	(23,193)	(67,793)	17,969	15,922	2,047	12.9 %	—	—
Subtotal	(35,342)	(62,175)	(79,423)	(107,548)	44,081	45,373	(1,292)	(2.8)%	13,466	34,778
Operator Platform(4)	28	—	—	—	28	—	28	NA	—	—
Total	$ (35,314)	$ (62,175)	$ (79,423)	$ (107,548)	$ 44,109	$ 45,373	$ (1,264)	(2.8)%	$ 13,466	$ 34,778

(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) In March 2016, we acquired NorthStar Realty's 60.0% interest in the Winterfell portfolio. The transaction was approved by our board of directors, including all of its independent directors, and the purchase price was supported by an independent third-party appraisal for the Winterfell portfolio. We originally acquired a 40.0% equity interest in the Winterfell portfolio in May 2015. Accordingly, as of March 1, 2016, we own 100.0% of the equity in the Winterfell portfolio and consolidate the portfolio.

(3) Equity in earnings for the year ended December 31, 2017 includes a loan loss reserve recorded by the joint venture, of which our proportionate share totaled $11.4 million. Refer to "Credit Losses and Impairment on Investments" within Financial Statements and Supplementary Data, Note 2, "Summary of Significant Accounting Policies" for additional discussion.

(4) Represents our investment in Solstice.

Equity in earnings (losses) of unconsolidated ventures decreased by $26.9 million, primarily as a result of overall lower depreciation and amortization expense recorded by the unconsolidated ventures as acquisition-related intangible assets continue to become fully amortized. The decrease in loss was partially offset by a $11.4 million loan loss reserve recorded by the Espresso joint venture, which represents our proportionate share of an impairment of real estate accounted for as a direct financing lease.

Income Tax Benefit (Expense)

Income tax expense for the year ended December 31, 2017 was $43,000 and related to our operating properties, which operate through a TRS structure. Income tax expense for the year ended December 31, 2016 was $7.1 million. In the first quarter of 2016, we recorded a full valuation allowance of $7.0 million on our deferred tax asset as we believed that it was unlikely to be realized.

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; (iii) capital expenditures, development and redevelopment activities; and (iv) repurchases of our shares.

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. Our revenues have declined as a result of, among other things, declines in occupancy and rate pressures, while our operating expenses have increased due primarily to increased labor and benefits costs. Our debt service obligations have also increased over the same period, primarily due to recurring principal amortization and rising interest expense. At the same time, 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. As a result, our board of directors has suspended distributions and limited share repurchases, as described in further detail below, in order to maintain adequate liquidity and flexibility to support the execution of our strategic objectives and drive long-term value for stockholders.

We currently believe that our capital resources are sufficient to meet our capital needs for the following 12 months. For additional information regarding our liquidity needs and capital resources, see below. As of March 21, 2019, we had $64.1 million of unrestricted cash.

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 year ended December 31, 2018.

A substantial majority of our properties, or 78.5% of our assets, excluding our unconsolidated ventures and properties designated held for sale, are operating properties whereby we are directly exposed to various operational risks. During 2018, our cash flow from operations was negatively impacted by, among other things, declines in occupancy, rate pressures and increases in operating expenses, particularly tied to increased labor and benefits costs.

In addition, we have significant joint ventures, with unconsolidated joint ventures and consolidated joint ventures representing 35.7% and 20.5%, respectively, of our total real estate equity investments as of December 31, 2018, and we may not be able to control the timing of distributions from these investments, if any.

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 December 31, 2018, we had $1.5 billion of consolidated asset-level borrowings outstanding. During 2018, we paid $10.5 million and $64.6 million, respectively, in recurring principal and interest payments on these borrowings, and currently anticipate that both recurring principal and interest payments will continue to increase in 2019.

Our unconsolidated joint ventures also have significant asset level borrowings. Borrowings that are maturing in our unconsolidated ventures may require us to fund additional contributions, if favorable refinancing is not obtained. If we are unable to fund capital calls, our investment in the unconsolidated investment may be diluted and may prohibit us from participating in future cash flows. In particular, our Griffin-American joint venture has $1.7 billion of non-recourse mortgage debt on certain properties in the joint venture that matures in December 2019. Our Sponsor, which is an equity partner in the Griffin-American joint venture, is currently evaluating options in connection with the December 2019 scheduled maturity of this debt, of which our proportionate share is approximately $246 million.

We also have a revolving credit facility, or our Corporate Facility, for up to $25.0 million, subject to satisfaction of certain conditions. However, as of December 31, 2018, we did not satisfy conditions to draw on our Corporate Facility. In addition, we have revolving line of credit from an affiliate of our Sponsor, or our Sponsor Line, for up to $35.0 million. We have not drawn on either our Corporate Facility or Sponsor Line in 2018 and currently have no borrowings outstanding under either our Corporate Facility or Sponsor Line.

For additional information regarding our borrowings, including principal repayments and timing of maturities, refer to "—Contractual Obligations and Commitments" as well as Note 7, "Borrowings" in our accompanying consolidated financial statements included in "Financial Statements and Supplementary Data."

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 calculation, 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 and as of December 31, 2018, our leverage was 61.7%. As of December 31, 2018, 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 67.9%.

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. During 2018, we spent $26.8 million on recurring capital expenditures for our direct investments. 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. During 2018, we spent $4.4 million on development capital expenditures.

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.

Disposition of Investments

We also evaluate dispositions of non-core investments to provide an additional source of liquidity. During the year ended December 31, 2018, we sold our investment in the Freddie Mac securitization, generating net proceeds of $35.8 million, as well as a non-core operating property within our Watermark Fountains portfolio, generating net proceeds of $2.7 million. 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%.

Distributions

To continue to qualify as a REIT, we are required to distribute annually at least 90% of our taxable income, subject to certain adjustments, to stockholders. For the years ended December 31, 2018, 2017 and 2016, the Company generated net operating losses for tax purposes and, accordingly, was not required to make distributions to its stockholders to qualify as a REIT. During the year ended December 31, 2018, we paid monthly distributions to our stockholders based on a daily record date in the amount of $0.000924658 per share, which required the use of $32.7 million in cash to fund the aggregate distributions paid. Refer to "Distributions Declared and Paid" for further information regarding our historical distributions. Effective February 1, 2019, our board of directors determined to suspend distributions in order to preserve capital and liquidity.

Repurchases

We have adopted a Share Repurchase Program effective August 7, 2012, as most recently amended in October 2018, 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 will only repurchase 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. During the year ended December 31, 2018, we repurchased 3.3 million shares for an aggregate amount of $25.9 million. Refer to Note 10, "Stockholders' Equity" and Note 16, "Subsequent Events" in our accompanying consolidated financial statements included in "Financial Statements and Supplementary Data."

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. We renewed our advisory agreement with our Advisor on June 30, 2018 for an additional one-year term on terms identical to those previously in effect. 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 for the years ended December 31, 2018, 2017 and 2016 (dollars in thousands):

	Year Ended December 31,				
Cash flow provided by (used in):	**2018**	**2017**	**2016**	**2018 vs. 2017 Change**	**2017 vs. 2016 Change**
Operating activities	$ 27,986	$ 10,129	$ 5,376	$ 17,857	$ 4,753
Investing activities	73,948	(314,394)	(60,355)	388,342	(254,039)
Financing activities	(87,914)	132,861	(62,970)	(220,775)	195,831
Net increase (decrease) in cash, cash equivalents and restricted cash	$ 14,020	$ (171,404)	$ (117,949)	$ 185,424	$ (53,455)

Year Ended December 31, 2018 compared to December 31, 2017

Operating Activities

Net cash provided by operating activities was $28.0 million for the year ended December 31, 2018 compared to $10.1 million for the year ended December 31, 2017. The increase of $17.9 million was primarily attributable to a decrease in asset management and acquisition fees paid to our Advisor.

Investing Activities

Our cash flows from investing activities are generally used to fund investment improvements and acquisitions, net of any investment dispositions. Net cash provided by investing activities was $73.9 million for the year ended December 31, 2018 compared to net cash used of $314.4 million for the year ended December 31, 2017. Cash flows provided by investing activities for the year ended December 31, 2018 are primarily attributable to the sale of an ownership interest in the Trilogy joint venture and the sale of our investment in the Freddie Mac securitization, partially offset by additional capital improvements to existing investments. Cash flows used in investing activities for the year ended December 31, 2017 primarily relate to the acquisition of three operating real estate portfolios and additional capital contributions to our unconsolidated ventures.

The following table presents cash used for capital improvements during the year ended December 31, 2018 as compared to the year ended December 31, 2017, excluding capital improvements made at our unconsolidated ventures (dollars in thousands):

	Year Ended December 31,		
Capital Improvements	**2018**	**2017**	**2018 vs. 2017 Change**
Development projects	$ 4,382	$ 1,439	$ 2,943
Recurring	26,830	18,737	8,093
Total improvement of operating real estate investments	$ 31,212	$ 20,176	$ 11,036

Financing Activities

Our cash flows from financing activities are principally impacted by our distributions paid on common stock and changes in our mortgage notes payable. Cash flows used in financing activities was $87.9 million for the year ended December 31, 2018 compared to cash flow provided by financing activities of $132.9 million for the year ended December 31, 2017. The change of $220.8 million was primarily attributable to payments of dividends and share repurchases, while no proceeds were obtained from real estate financings during the year ended December 31, 2018.

Year ended December 31, 2017 compared to December 31, 2016

Operating Activities

Net cash provided by operating activities was $10.1 million for the year ended December 31, 2017 compared to $5.4 million for the year ended December 31, 2016. The increase of $4.8 million was primarily related to earnings from new investments, as well as a decrease in acquisition fees and other general and administrative expenses paid to our Advisor.

Investing Activities

Our cash flows from investing activities are generally used to fund investment acquisitions, net of any repayment activity. Net cash used in investing activities increased by $254.0 million for the year ended December 31, 2017 compared to the year ended December 31, 2016. Cash flows used in investing activities for the year ended December 31, 2017 primarily relate to the acquisition of three operating real estate investments and additional capital improvements to existing investments. Cash flows used in investing activities for the year ended December 31, 2016 primarily relate to the acquisition of the remaining 60.0% equity interest in the Winterfell portfolio in March 2016 and additional capital contributions to joint venture investments. The following table presents capital improvements made during the year ended December 31, 2017 as compared to the year ended December 31, 2016, excluding capital improvements made at our unconsolidated ventures (dollars in thousands):

	Year Ended December 31,		
Capital Improvements	**2017**	**2016**	**2017 vs. 2016 Change**
Development projects	$ 1,439	$ 9,449	$ (8,010)
Recurring	18,737	19,979	(1,242)
Total improvement of operating real estate investments	$ 20,176	$ 29,428	$ (9,252)

Financing Activities

Our cash flows from financing activities are principally impacted by our distributions paid on common stock and changes in our mortgage notes payable. Cash flows provided by financing activities was $132.9 million for the year ended December 31, 2017 compared to cash flow used in financing activities of $63.0 million for the year ended December 31, 2016. The change of $195.8 million primarily relates to an increase in net proceeds from mortgage notes payable, partially offset by an increase in shares redeemed for cash and distributions paid on common stock.

Contractual Obligations and Commitments

The following table presents contractual obligations and commitments as of December 31, 2018 (dollars in thousands):

	Payments Due by Period				
		2019	2020 - 2021	2022 - 2023	
	Total	Less than 1 year	1-3 years[6]	3-5 years[7]	More than 5 years
Mortgage and notes other payables - consolidated[1]	$ 1,494,154	$ 52,170	$ 88,301	$ 483,817	$ 869,866
Mortgage and notes other payables - unconsolidated[1][2]	816,624	372,740	148,491	15,840	279,553
Estimated interest payments - consolidated[3]	343,019	64,447	121,388	86,494	70,690
Estimated interest payments - unconsolidated[2][3]	220,018	38,332	35,279	20,826	125,581
Advisor asset management fee[4]	119,862	19,977	39,954	39,954	19,977
Total[5]	$ 2,993,677	$ 547,666	$ 433,413	$ 646,931	$ 1,365,667

(1) Represents contractual amortization of principal and repayment upon contractual maturity.
(2) Represents our proportionate interest in the underlying obligations and commitments of our unconsolidated ventures. We are not directly liable for the obligations and commitments of our unconsolidated ventures. Borrowings that are maturing in our unconsolidated ventures may require us to fund additional contributions if favorable refinancing is not obtained. We are not obligated to fund capital contributions, however our investment in the unconsolidated investment may be diluted and we may be prohibited from participating in future cash flows if we are unable to fund.
(3) Estimated interest payments are based on the remaining life of the borrowings. Applicable LIBOR rate plus the respective spread as of December 31, 2018 was used to estimate payments for our floating-rate borrowings.
(4) Subject to certain restrictions and limitations, our Advisor is responsible for managing our affairs on a day-to-day basis and for identifying, originating, acquiring and managing investments on our behalf. For such services, our Advisor receives management fees from us based on our most recent net asset value. In addition, our advisory agreement must be renewed in June 2019 and may be renewed on different terms or may be terminated at any time, subject to notice requirements. As a result, the amount included in the table above is an estimate only and assumes the current net asset value and the continuation of our advisory agreement on its current terms. Included in the table is $10.0 million of advisor asset management fees per year that are payable in shares of our common stock. Refer to "—Related Party Arrangements" for additional information on our Advisor asset management fee.
(5) Excludes construction related and other commitments for future development.
(6) Total includes $171.2 million and $262.2 million for years ended December 31, 2020 and 2021, respectively.
(7) Total includes $551.7 million and $95.3 million for years ended December 31, 2022 and 2023, respectively.

In addition, our joint venture partners may be entitled to call additional capital under the governing documents of our joint ventures and certain of our tenants/operators/managers may require us to fund capital projects under our leases or management agreements. Although we may not be obligated to fund such capital contributions or capital projects, we may be subject to adverse consequences for any such failure to fund.

Off-Balance Sheet Arrangements

As of December 31, 2018, we are not dependent on the use of any off-balance sheet financing arrangements for liquidity. We have made investments in unconsolidated ventures. Refer to Note 4, "Investments in Unconsolidated Ventures" in "Financial Statements and Supplementary Data" for a discussion of such unconsolidated ventures in our consolidated financial statements. In each case, our exposure to loss is limited to the carrying value of our investment.

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 "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 2018, our advisory agreement was renewed for an additional one-year term commencing on June 30, 2018, with terms identical to those in effect through June 30, 2018.

<u>Fees to Advisor</u>

Asset Management Fee

From inception through December 31, 2017, our Advisor received a monthly asset management fee equal to one-twelfth of 1.0% of the sum of the amount funded or allocated for investments, including expenses and any financing attributable to such investments, less any principal received on debt and securities investments (or our proportionate share thereof in the case of an investment made through a joint venture).

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.

Acquisition Fee

From inception through December 31, 2017, our Advisor received fees for providing structuring, diligence, underwriting advice and related services in connection with real estate acquisitions equal to 2.25% of each real estate property acquired by us, including acquisition costs and any financing attributable to an equity investment (or the proportionate share thereof in the case of an indirect equity investment made through a joint venture or other investment vehicle) and 1.0% of the amount funded or allocated by us to acquire or originate debt investments, including acquisition costs and any financing attributable to such investments (or the proportionate share thereof in the case of an indirect investment made through a joint venture or other investment vehicle).

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 may receive 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 do not pay a disposition fee upon the maturity, prepayment, workout, modification or extension of a debt investment unless there is a corresponding fee paid by our borrower, in which case the disposition fee is 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 take ownership of a property as a result of a workout or foreclosure of a debt investment, we will pay a disposition fee upon the sale of such property. A disposition fee from the sale of an investment is 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 is included in debt investments, net on our consolidated balance sheets and is amortized to interest income over the life of the investment using the effective interest method.

<u>Reimbursements to Advisor</u>

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 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 to our Advisor for the years ended December 31, 2018 and 2017 and the amount due to related party as of December 31, 2018, 2017 and 2016 (dollars in thousands):

Type of Fee or Reimbursement	Financial Statement Location	Due to Related Party as of December 31, 2017	Year Ended December 31, 2018		Due to Related Party as of December 31, 2018
			Incurred	Paid	
Fees to Advisor Entities					
Asset management[(1)]	Asset management and other fees-related party	$ —	$ 23,486	$ (21,821) [(2)]	$ 1,665
Acquisition[(2)]	Investments in unconsolidated ventures/Asset management and other fees-related party	8	(8)	—	—
Reimbursements to Advisor Entities					
Operating costs[(3)]	General and administrative expenses	1,038	12,631	(9,659)	4,010
Total		$ 1,046	$ 36,109	$ (31,480)	$ 5,675

(1) Includes $9.0 million paid in shares of our common stock and a $0.2 million gain recognized on the settlement of the share-based payment.
(2) From inception through December 31, 2018, our Advisor waived $0.3 million of acquisition fees related to healthcare-related securities. We did not incur any disposition fees during the year ended December 31, 2018, nor were any such fees outstanding as of December 31, 2017.
(3) As of December 31, 2018, our Advisor did not have any unreimbursed operating costs which remained eligible to be allocated to us. For the year ended December 31, 2018, total operating expenses included in the 2%/25% Guidelines represented 0.4% of average invested assets and 54.9% of net loss without reduction for any additions to reserves for depreciation, loan losses or other similar non-cash reserves. Cost of capital is included in net proceeds from issuance of common stock in our consolidated statements of equity. For the year ended December 31, 2018, we did not incur any offering costs.

Type of Fee or Reimbursement	Financial Statement Location	Due to Related Party as of December 31, 2016	Year Ended December 31, 2017		Due to Related Party as of December 31, 2017
			Incurred	Paid	
Fees to Advisor Entities					
Asset management	Asset management and other fees-related party	$ 12	$ 34,302	$ (34,314)	$ —
Acquisition[(1)]	Investments in unconsolidated ventures/Asset management and other fees-related party	66	8,206	(8,264)	8
Reimbursements to Advisor Entities					
Operating costs[(2)]	General and administrative expenses	141	11,208	(10,311)	1,038
Total		$ 219	$ 53,716	$ (52,889)	$ 1,046

(1) Acquisition/disposition fees incurred to our Advisor related to debt investments are generally offset by origination/exit fees paid to us by borrowers if such fees are required from the borrower. Acquisition fees related to equity investments are included in asset management and other fees-related party in our consolidated statements of operations. Acquisition fees related to investments in unconsolidated joint ventures are included in investments in unconsolidated ventures on our consolidated balance sheets. From inception through December 31, 2017, our Advisor waived $0.3 million of acquisition fees related to healthcare-related securities. We did not incur any disposition fees during the year ended December 31, 2017, nor were any such fees outstanding as of December 31, 2016.
(2) As of December 31, 2017, our Advisor did not have any unreimbursed operating costs which remained eligible to be allocated to us. For the year ended December 31, 2017, total operating expenses included in the 2%/25% Guidelines represented 0.3% of average invested assets and 44.9% of net loss without reduction for any additions to reserves for depreciation, loan losses or other similar non-cash reserves.

Issuance of Common Stock to our Advisor

Pursuant to the December 2017 amendment of our advisory agreement, for the year ended December 31, 2018, we issued 1.1 million shares totaling $9.0 million to an affiliate of our Advisor as part of its asset management fee.

Investments in Joint Ventures

In November 2017, we began the transition of operations of the Winterfell portfolio, from the former manager, an affiliate of Holiday Retirement, to a new manager, Solstice. Solstice is a joint venture between affiliates of Integral Senior Living, LLC, a leading management company of ILF, ALF and MCF founded in 2000, which owns 80.0%, and the Company, which owns 20.0%. For the year ended December 31, 2018, the Company recognized property management fee expense of $5.3 million paid to Solstice related to the Winterfell portfolio.

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

Portfolio	Partner(s)	Acquisition Date	Ownership
Eclipse	Colony Capital/ Formation Capital, LLC	May-2014	5.6%
Griffin-American	Colony Capital	Dec-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 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 2016 and 2017, we funded additional capital contributions of $18.8 million and $8.3 million, respectively, in accordance with the joint venture agreement. Additionally, in 2018, we funded capital contributions of $4.5 million for a total contribution of $233.3 million. The additional fundings related to certain business initiatives, including the acquisition of additional senior housing and skilled nursing facilities and repayment of certain outstanding obligations. 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.

Colony Capital Line of Credit

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 was extended through December 2020. As of December 31, 2017, we had drawn and fully repaid $25.0 million under our Sponsor Line. We did not utilize our Sponsor Line during the year ended December 31, 2018.

Recent Developments

Distribution Reinvestment Plan

For the period from January 1, 2019 through January 31, 2019, we issued 0.7 million shares pursuant to our DRP, representing gross proceeds of $4.9 million.

Share Repurchases

For the period from January 1, 2019 through March 21, 2019, we repurchased 0.3 million shares for a total of $2.0 million or a price of $7.10 per share under our Share Repurchase Program. Prior to the most recent amendments to our Share Repurchase program, we had a total of 12.0 million shares, or $85.0 million, based on our most recently published estimated value per share of $7.10, in unfulfilled repurchase requests. Refer to "Financial Statements and Supplementary Data," Note 10, "Stockholders' Equity" for additional information regarding our Share Repurchase Program.

Distributions

Effective February 1, 2019, our board of directors determined to suspend distributions in order to preserve capital and liquidity.

Dispositions

<u>Envoy</u>

In March 2019, the Envoy joint venture, of which we own 11.4%, completed the sale of the remaining 11 properties in the portfolio for a sales price of $118.0 million. Our proportionate share of net proceeds, after debt repayment and transaction costs, is anticipated to be approximately $5.7 million, subject to indemnification and future performance.

<u>Peregrine</u>

In March 2019, we executed a purchase and sale agreement totaling $19.7 million for two properties within the Peregrine portfolio.

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

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

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

- 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 balance sheet date. If the estimated fair value of the underlying collateral for the debt investment is less than its net carrying value, a loan loss reserve is recorded with a corresponding charge to provision for loan losses. With respect to a real estate investment, a property's value is considered impaired if a triggering event is identified and our estimate of the aggregate future undiscounted cash flow to be generated by the property is less than the carrying value of the property. The value of our investments may be impaired and their carrying values may not be recoverable due to our limited life. Investors should note that while impairment charges are excluded from the calculation of MFFO, investors are cautioned that due to the fact that impairments are based on estimated future undiscounted cash flow and the relatively limited term of a non-traded REIT's anticipated operations, it could be difficult to recover any impairment charges through operational net revenues or cash flow prior to any liquidity event.

We believe that MFFO is a useful non-GAAP measure for non-traded REITs. It is helpful to management and stockholders in assessing our future operating performance once our organization and offering and acquisition and development stages are complete, because it eliminates from net income non-cash fair value adjustments on our real estate securities and acquisition fees and expenses that are incurred as part of our investment activities. However, MFFO may not be a useful measure of our operating performance or as a comparable measure to other typical non-traded REITs if we do not continue to operate in a similar manner to other non-traded REITs, including if we were to extend our acquisition and development stage or if we determined not to pursue an exit strategy.

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

We purchased Class B healthcare-related securities in a securitization trust at a discount to par value, and would have recorded the accretion of the discount as interest income (which we refer to as the effective yield) had we been able to record the transaction as an available for sale security. As we were granted certain rights with our purchase, U.S. GAAP required us to consolidate the whole securitization trust and eliminate the Class B securities. We believe that reporting the effective yield in MFFO provided better insight to the expected contractual cash flows and was more consistent with our review of operating performance. The effective yield computation under U.S. GAAP and MFFO was the same.

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

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

	Year Ended December 31,		
	2018	2017	2016
Funds from operations:			
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (151,578)	$ (137,771)	$ (141,275)
Adjustments:			
Depreciation and amortization	107,133	105,459	81,786
Impairment losses of depreciable real estate	35,552	5,000	—
Depreciation and amortization related to unconsolidated ventures	32,877	38,804	87,065
Depreciation and amortization related to non-controlling interests	(779)	(620)	(564)
Impairment loss on real estate related to non-controlling interests	(62)	—	—
(Gain) loss on consolidation of unconsolidated venture	—	—	(6,408)
Realized (gain) loss from sales of property	(14,148)	—	—
Realized gain (loss) from sales of property related to non-controlling interests	2	—	—
Realized (gain) loss from sales of property related to unconsolidated ventures	1,446	694	(1,653)
Impairment losses of depreciable real estate held by unconsolidated ventures	22,568	5,265	1,451
Funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	$ 33,011	$ 16,831	$ 20,402
Modified funds from operations:			
Funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	$ 33,011	$ 16,831	$ 20,402
Adjustments:			
Acquisition fees and transaction costs	878	17,057	14,585
Straight-line rental (income) loss	440	(1,673)	(1,780)
Amortization of premiums, discounts and fees on investments and borrowings	4,903	4,181	4,118
Amortization of discounts on healthcare-related securities	314	1,531	328
Deferred tax (benefit) expense	—	—	7,019
Adjustments related to unconsolidated ventures[(1)]	12,185	34,660	20,685
Adjustments related to non-controlling interests	13	(182)	(23)
Realized (gain) loss on investments and other	(6,094)	(116)	(600)
Unrealized (gain) loss on senior housing mortgage loans and debt held in securitization trust	—	(1,503)	(298)
Impairment of assets other than real estate	725	—	—
Modified funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	$ 46,375	$ 70,786	$ 64,436

(1) Primarily represents our proportionate share of liability extinguishment gains, loan loss reserves, transaction costs and amortization of above/below market debt adjustments 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. 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. Distributions were generally paid to stockholders on the first business day of the month following the month for which the distribution was accrued. 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 for the years ended December 31, 2018 and 2017 (dollars in thousands):

	Year Ended December 31,			
	2018		2017	
Distributions[(1)]				
Cash	$ 32,739		$ 58,766	
DRP	30,517		67,037	
Total	$ 63,256		$ 125,803	
Sources of Distributions[(1)]				
FFO[(2)]	$ 33,011	52%	$ 16,831	13%
Offering proceeds - Other	30,245	48%	108,972	87%
Total	$ 63,256	100%	$ 125,803	100%
Cash Flow Provided by (Used in) Operations	$ 27,986		$ 10,129	

(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 December 31, 2018, we declared $428.4 million in distributions. Cumulative FFO for the period from April 5, 2013 through December 31, 2018 was $47.7 million.

For the years ended December 31, 2018 and 2017, distributions in excess of FFO were paid using available capital sources, including proceeds from borrowings and dispositions. 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.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

Changes in interest rates may affect our net income as a result of changes in interest expense incurred in connection with floating-rate borrowings used to finance our equity investments. As of December 31, 2018, 11.8% of our total borrowings were floating rate liabilities and none of our real estate debt investments were floating rate investments. As of December 31, 2018, all floating rate liabilities outstanding related mortgage notes payable of our direct operating investments. As of December 31, 2018, we had two lines of credit which carry floating interest rates, with no outstanding liabilities under either.

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

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

The interest rate on our floating-rate liabilities is a fixed spread over an index such as LIBOR and typically reprices every 30 days based on LIBOR in effect at the time. As of December 31, 2018, a hypothetical 100 basis point increase in interest rates would increase net interest expense by $1.8 million annually. We did not have any floating rate real estate debt investments as of December 31, 2018.

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 December 31, 2018, we had one fixed-rate debt investment with a carrying value of $58.6 million.

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.

For the year ended December 31, 2018, the Espresso mezzanine loan and the Freddie Mac securitization contributed 100.0% of interest income. As of December 31, 2018, one borrower, a subsidiary of the Espresso joint venture, represented 100.0% of the aggregate principal amount of our debt investments. The Espresso joint venture has several sub-portfolios, three of which have experienced tenant lease defaults and operator transitions. The underlying tenant defaults resulted in defaults under the senior loans with respect to the applicable sub-portfolios, which in turn resulted in defaults under the Espresso mezzanine loan as of December 31, 2018. We are actively monitoring the actions of the senior lenders of each sub-portfolio and assessing our rights and remedies. We are also actively monitoring the operator transitions and continue to assess the collectability of principal and interest.

Risk Concentration

The following table presents the operators and tenants of our properties, excluding properties owned through unconsolidated joint ventures as of December 31, 2018 (dollars in thousands):

Operator / Tenant		Properties Under Management	Units Under Management(1)	Year Ended December 31, 2018 Property and Other Revenues	% of Total Property and Other Revenues
Watermark Retirement Communities		30	5,265	$ 152,875	52.0%
Solstice Senior Living	(2)	32	4,000	105,617	35.9%
Avamere Health Services	(3)	5	453	16,735	5.7%
Arcadia Management		4	572	10,615	3.6%
Integral Senior Living	(2)	3	162	5,695	1.9%
Peregrine Senior Living		2	114	1,467	0.5%
Senior Lifestyle Corporation	(4)	1	63	51	—%
Other	(5)	—	—	1,216	0.4%
Total		77	10,629	$ 294,271	100.0%

(1) Represents rooms for ALF and ILF and beds for MCF and SNF, based on predominant type.
(2) Solstice Senior Living, LLC is a joint venture of which affiliates of Integral Senior Living own 80%.
(3) Effective February 2018, properties under the management of Bonaventure were transitioned to Avamere Health Services.
(4) As a result of the tenant failing to remit rental payments, we accelerated the amortization of capitalized lease inducements. Properties and unit counts exclude one property held for sale.
(5) Consists primarily of interest income earned on corporate-level cash accounts.

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.

Internal Control over Financial Reporting

(a) *Management's Annual Report on Internal Control over Financial Reporting.*

Management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Exchange Act Rule 13a-15(f), internal control over financial reporting is a process designed by, or under the supervision of, the principal executive and principal financial officer and effected by the board of directors, management and other personnel, 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 and includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we carried out an evaluation of the effectiveness of its internal control over financial reporting as of December 31, 2018 based on the "Internal Control-Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based upon this evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2018.

(b) *Changes in Internal Control over Financial Reporting.*

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

Inherent Limitations on Effectiveness of Controls

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

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

NorthStar Healthcare Income, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of NorthStar Healthcare Income, Inc. (a Maryland corporation) and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedules included under Item 15(a) (collectively referred to as the "financial statements"). In our opinion, based on our audits and the report of the other auditors, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Healthcare GA Holdings, General Partnership ("Griffin - American") the investment in which is accounted for under the equity method of accounting. The equity in its net loss was $12.7 million and $6.9 million of consolidated equity in earnings (losses) of unconsolidated ventures for the year ending December 31, 2018 and 2017, respectively. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Griffin - American, is based solely on the report of the other auditors.

Basis for opinion

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

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

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

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2010

New York, New York

March 22, 2019

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Per Share Data)

	December 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$ 73,811	$ 50,046
Restricted cash	20,697	30,442
Operating real estate, net	1,778,914	1,852,428
Investments in unconsolidated ventures	264,319	325,582
Real estate debt investments, net	58,600	74,650
Senior housing mortgage loans held in a securitization trust, at fair value	—	545,048
Assets held for sale	2,183	—
Receivables, net	14,436	18,363
Deferred costs and intangible assets, net	36,996	84,720
Other assets	14,460	17,474
Total assets[(1)]	$ 2,264,416	$ 2,998,753
Liabilities		
Mortgage and other notes payable, net	$ 1,466,349	$ 1,487,480
Senior housing mortgage obligations issued by a securitization trust, at fair value	—	512,772
Due to related party	5,675	1,046
Escrow deposits payable	4,379	3,817
Distribution payable	5,400	10,704
Accounts payable and accrued expenses	32,405	33,478
Other liabilities	5,834	4,657
Total liabilities[(1)]	1,520,042	2,053,954
Commitments and contingencies		
Equity		
NorthStar Healthcare Income, Inc. Stockholders' Equity		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding as of December 31, 2018 and December 31, 2017	—	—
Common stock, $0.01 par value, 400,000,000 shares authorized, 188,495,355 and 186,709,303 shares issued and outstanding as of December 31, 2018 and December 31, 2017, respectively	1,885	1,867
Additional paid-in capital	1,697,998	1,681,040
Retained earnings (accumulated deficit)	(958,924)	(744,090)
Accumulated other comprehensive income (loss)	(2,284)	(316)
Total NorthStar Healthcare Income, Inc. stockholders' equity	738,675	938,501
Non-controlling interests	5,699	6,298
Total equity	744,374	944,799
Total liabilities and equity	$ 2,264,416	$ 2,998,753

(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 December 31, 2018, the Operating Partnership includes $0.7 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.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in Thousands, Except Per Share Data)

	Year Ended December 31,		
	2018	2017	2016
Property and other revenues			
Resident fee income	$ 129,855	$ 127,180	$ 102,915
Rental income	159,481	155,700	132,108
Other revenue	4,935	2,895	1,585
Total property and other revenues	294,271	285,775	236,608
Net interest income			
Interest income on debt investments	7,706	7,696	17,720
Interest income on mortgage loans held in a securitized trust	5,149	25,955	5,022
Interest expense on mortgage obligations issued by a securitization trust	(3,824)	(19,510)	(3,772)
Net interest income	9,031	14,141	18,970
Expenses			
Real estate properties - operating expenses	188,761	163,837	129,954
Interest expense	70,196	61,082	50,243
Other expenses related to securitization trust	811	3,922	765
Transaction costs	888	9,407	2,204
Asset management and other fees - related party	23,478	41,954	45,092
General and administrative expenses	14,390	13,488	24,843
Depreciation and amortization	107,133	105,459	81,786
Impairment loss	36,277	5,000	—
Total expenses	441,934	404,149	334,887
Other income (loss)			
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net	—	1,503	298
Realized gain (loss) on investments and other	20,243	116	600
Gain (loss) on consolidation of unconsolidated venture	—	—	6,408
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	(118,389)	(102,614)	(72,003)
Equity in earnings (losses) of unconsolidated ventures	(33,517)	(35,314)	(62,175)
Income tax benefit (expense)	(114)	(43)	(7,104)
Net income (loss)	(152,020)	(137,971)	(141,282)
Net (income) loss attributable to non-controlling interests	442	200	7
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (151,578)	$ (137,771)	$ (141,275)
Net income (loss) per share of common stock, basic/diluted	$ (0.81)	$ (0.74)	$ (0.77)
Weighted average number of shares of common stock outstanding, basic/diluted	187,501,302	186,418,183	182,446,286

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in Thousands)

	Year Ended December 31,		
	2018	2017	2016
Net income (loss)	$ (152,020)	$ (137,971)	$ (141,282)
Other comprehensive income (loss)			
Foreign currency translation adjustments related to investment in unconsolidated venture	(1,968)	872	(1,188)
Total other comprehensive income (loss)	(1,968)	872	(1,188)
Comprehensive income (loss)	(153,988)	(137,099)	(142,470)
Comprehensive (income) loss attributable to non-controlling interests	442	200	7
Comprehensive income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (153,546)	$ (136,899)	$ (142,463)

Refer to accompanying notes to consolidated financial statements.

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, 2015	179,137	$ 1,791	$ 1,614,452	$ (216,099)	$ —	$ 1,400,144	$ 5,356	$ 1,405,500
Net proceeds from issuance of common stock	81	1	295	—	—	296	—	296
Issuance and amortization of equity-based compensation	14	—	166	—	—	166	—	166
Non-controlling interests - contributions	—	—	—	—	—	—	291	291
Non-controlling interests - distributions	—	—	—	—	—	—	(291)	(291)
Shares redeemed for cash	(1,765)	(18)	(16,120)		—	(16,138)	—	(16,138)
Distributions declared	—	—	—	(123,142)	—	(123,142)	—	(123,142)
Proceeds from distribution reinvestment plan	7,568	76	67,686	—	—	67,762	—	67,762
Other comprehensive income (loss)	—	—	—	—	(1,188)	(1,188)	—	(1,188)
Net income (loss)	—	—	—	(141,275)	—	(141,275)	(7)	(141,282)
Balance as of December 31, 2016	185,035	$ 1,850	$ 1,666,479	$ (480,516)	$ (1,188)	$ 1,186,625	$ 5,349	$ 1,191,974
Issuance and amortization of equity-based compensation	20	—	176	—	—	176	—	176
Non-controlling interests - contributions	—	—	—	—	—	—	2,988	2,988
Non-controlling interests - distributions	—	—	—	—	—	—	(1,839)	(1,839)
Shares redeemed for cash	(5,728)	(57)	(52,713)	—	—	(52,770)	—	(52,770)
Distributions declared	—	—	—	(125,803)	—	(125,803)	—	(125,803)
Proceeds from distribution reinvestment plan	7,382	74	67,098	—	—	67,172	—	67,172
Other comprehensive income (loss)	—	—	—	—	872	872	—	872
Net income (loss)	—	—	—	(137,771)	—	(137,771)	(200)	(137,971)
Balance as of December 31, 2017	186,709	$ 1,867	$ 1,681,040	$ (744,090)	$ (316)	$ 938,501	$ 6,298	$ 944,799
Share-based payment of advisor asset management fees	1,078	11	9,019	—	—	9,030	—	9,030
Issuance and amortization of equity-based compensation	21	—	174	—	—	174	—	174
Non-controlling interests - contributions	—	—	—	—	—	—	484	484
Non-controlling interests - distributions	—	—	—	—	—	—	(641)	(641)
Shares redeemed for cash	(3,275)	(33)	(25,874)	—	—	(25,907)	—	(25,907)
Distributions declared	—	—	—	(63,256)	—	(63,256)	—	(63,256)
Proceeds from distribution reinvestment plan	3,962	40	33,639	—	—	33,679	—	33,679
Other comprehensive income (loss)	—	—	—	—	(1,968)	(1,968)	—	(1,968)
Net income (loss)	—	—	—	(151,578)	—	(151,578)	(442)	(152,020)
Balance as of December 31, 2018	188,495	$ 1,885	$ 1,697,998	$ (958,924)	$ (2,284)	$ 738,675	$ 5,699	$ 744,374

Refer to accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income (loss)	$ (152,020)	$ (137,971)	$ (141,282)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Equity in (earnings) losses of unconsolidated ventures	33,517	35,314	62,175
Depreciation and amortization	107,133	105,459	81,786
Impairment loss	36,277	5,000	—
Amortization of below market debt	2,932	2,703	2,339
Straight-line rental income, net and amortization of lease inducements	440	(1,673)	(1,780)
Amortization of premium/accretion of discount on investments	(101)	(92)	(35)
Amortization of deferred financing costs	1,946	1,586	1,813
Amortization of equity-based compensation	174	176	166
Deferred income tax (benefit) expense, net	—	(6)	7,019
Realized (gain) loss on investments and other	(20,243)	(116)	(600)
(Gain) loss on consolidation of unconsolidated venture	—	—	(6,408)
Unrealized (gain) loss on senior housing mortgage loans and debt held in securitization trust, net	—	(1,503)	(298)
Allowance for uncollectible accounts	3,172	1,314	153
Distributions of cumulative earnings from unconsolidated ventures	—	—	267
Changes in assets and liabilities:			
Receivables	1,219	(5,545)	(1,777)
Other assets	645	(3,975)	(1,463)
Due to related party	13,796	827	(224)
Escrow deposits payable	563	608	792
Accounts payable and accrued expenses	(2,205)	8,375	3,550
Other liabilities	741	(352)	(817)
Net cash provided by (used in) operating activities	27,986	10,129	5,376
Cash flows from investing activities:			
Acquisition of operating real estate investments	—	(278,959)	(142,941)
Improvement of operating real estate investments	(31,212)	(20,176)	(29,428)
Sale of operating real estate investment	11,784	—	—
Sale of healthcare-related securities	35,771	—	—
Sale of ownership interest in unconsolidated ventures	47,813	—	—
Deferred costs and intangible assets	—	(19,057)	—
Repayment on real estate debt investments	—	—	118,411
Investment in unconsolidated ventures	(4,470)	(12,956)	(20,731)
Distributions in excess of cumulative earnings from unconsolidated ventures	12,672	13,466	34,511
Purchase of healthcare-related securities	—	—	(30,475)
Working capital of consolidated real estate investment	—	—	11,174
Other assets	1,590	3,288	(876)
Net cash provided by (used in) investing activities	73,948	(314,394)	(60,355)
Cash flows from financing activities:			
Borrowing from mortgage notes	—	249,091	18,760
Repayment of mortgage notes	(25,979)	(2,719)	(10,500)
Borrowings from line of credit - related party	—	25,000	—
Repayment of borrowings from line of credit - related party	—	(25,000)	—
Payment of deferred financing costs	(283)	(3,384)	(694)
Net proceeds from issuance of common stock	—	—	405
Debt extinguishment costs	(97)	—	—
Shares redeemed for cash	(25,907)	(52,770)	(16,138)
Payments under capital leases	(610)	—	—
Distributions paid on common stock	(68,560)	(125,678)	(122,565)
Proceeds from distribution reinvestment plan	33,679	67,172	67,762
Contributions from non-controlling interests	484	2,988	291
Distributions to non-controlling interests	(641)	(1,839)	(291)
Net cash provided by (used in) financing activities	(87,914)	132,861	(62,970)
Net increase (decrease) in cash, cash equivalents and restricted cash	14,020	(171,404)	(117,949)
Cash, cash equivalents and restricted cash-beginning of period	80,488	251,892	369,841
Cash, cash equivalents and restricted cash-end of period	$ 94,508	$ 80,488	$ 251,892

Refer to accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2018	2017	2016
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 64,568	$ 55,830	$ 45,898
Cash paid for income taxes	187	54	81
Supplemental disclosure of non-cash investing and financing activities:			
Accrued distribution payable	$ 5,400	$ 10,704	$ 10,579
Accrued capital expenditures	1,456	—	—
Reclassification of assets held for sale	2,183	—	—
Issuance of common stock as payment for asset management fees	9,030	—	—
Deconsolidation of securitization trust (VIE asset/liability)	512,772	—	—
Acquisition of operating real estate under capital lease obligations	2,108	—	—
Assumption of mortgage notes payable upon acquisitions of operating real estate	—	21,685	648,211
Change in carrying value of securitization trust (VIE asset/liability)	—	10,162	—
Debt financing provided by seller for investment acquisition	—	15,855	—
Contingent purchase price payable upon acquisition of operating real estate	—	1,800	—
Consolidation of securitization trust (VIE asset/liability)	—	—	522,933
Transfer of non-controlling interest in joint venture for controlling interest in consolidated real estate investment	—	—	103,005
Reclassification related to measurement-period adjustment	—	—	143,070
Escrow deposits related to real estate debt investments	—	—	293

Refer to accompanying notes to consolidated financial statements.

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 December 31, 2018 and December 31, 2017. As the Company issued shares, it contributed substantially all of the proceeds from its continuous, public offerings to the Operating Partnership as a capital contribution. As of December 31, 2018, 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 and continues to offer such shares. From inception through January 31, 2019, 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.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying consolidated financial statements and related notes of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, the Operating Partnership and their consolidated subsidiaries. The Company consolidates variable interest entities ("VIEs") where the Company is the primary beneficiary and voting interest entities which are generally majority owned or otherwise controlled by the Company. 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 December 31, 2018, 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 sheet as of December 31, 2018 is $617.7 million related to such consolidated VIEs. Included in mortgage and other notes payable, net on the Company's consolidated balance sheet as of December 31, 2018 is $467.3 million, collateralized by the real estate assets of the related consolidated VIEs.

Investing VIEs

The Company's investment in a securitization financing entity ("Investing VIE") consisted of subordinate first-loss certificates in a securitization trust, generally referred to as Class B certificates, which represents interests in such VIE. Investing VIEs are structured as pass through entities that receive principal and interest payments from the underlying debt collateral assets and distribute those payments to the securitization trust's certificate holders, including the Class B certificates. A securitization trust will name a directing certificate holder, who is generally afforded the unilateral right to terminate and appoint a replacement for the special servicer, and as such may qualify as the primary beneficiary of the trust.

If it is determined that the Company is the primary beneficiary of an Investing VIE as a result of acquiring the subordinate first-loss certificates in a securitization trust, the Company would consolidate the assets, liabilities, income and expenses of the entire Investing VIE. The assets held by an Investing VIE are restricted and can only be used to fulfill its own obligations. The obligations of an Investing VIE have neither any recourse to the general credit of the Company as the consolidating parent entity of an Investing VIE, nor to any of the Company's other consolidated entities.

As of December 31, 2017, the Company held Class B certificates in an Investing VIE for which the Company had determined it was the primary beneficiary because it had the power to direct the activities that most significantly impacted the economic performance of the securitization trust. As a result, all of the assets, liabilities (obligations to the certificate holders of the securitization trust, less the Company's retained interest from the Class B certificates of the securitization), income and expense of the entire Investing VIE were presented in the consolidated financial statements of the Company as required by U.S. GAAP. The Company's Class B certificates, which represented the retained interest and related interest income, were eliminated in consolidation. Regardless of the presentation, the Company's consolidated financial statements of operations ultimately reflect the net income attributable to its retained interest in the Class B certificates. Refer to Note 6, "Healthcare-Related Securities" for further detail.

The Company elected the fair value option for the initial recognition of the assets and liabilities of its consolidated Investing VIE. Interest income and interest expense associated with this VIE are presented separately on the consolidated statements of operations. The assets and liabilities of the Investing VIE are presented as "Senior housing mortgage loans held in a securitization trust, at fair value" and "Senior housing mortgage obligations issued by a securitization trust, at fair value," respectively, on the consolidated balance sheets. Refer to Note 12, "Fair Value" for further detail.

In March 2018, the Company sold the Class B certificates of its consolidated Investing VIE, relinquishing its rights as directing certificate holder. As a result, the Company was no longer deemed the primary beneficiary of the securitization trust and, accordingly, did not present the assets or liabilities of the securitization trust on its consolidated balance sheets as of December 31, 2018. The Company has presented the income and expenses of the securitization trust on its consolidated statements of operations for the period that the Company owned the Class B certificates and was considered the primary beneficiary in 2018.

Unconsolidated VIEs

As of December 31, 2018, the Company identified unconsolidated VIEs related to its real estate equity investments with a carrying value of $264.3 million. The Company's maximum exposure to loss as of December 31, 2018 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 December 31, 2018. The Company did not provide financial support to its unconsolidated VIEs during the year ended December 31, 2018, except for funding its proportionate share of capital call contributions. As of December 31, 2018, 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.

The Company elected the fair value option to account for the eligible financial assets and liabilities of its consolidated Investing VIEs in order to mitigate potential accounting mismatches between the carrying value of the instruments and the related assets and liabilities to be consolidated. The Company adopted guidance issued by the FASB allowing the Company to measure both the financial assets and liabilities of a qualifying collateralized financing entity (“CFE”) it consolidated using the fair value of either the CFE’s financial assets or financial liabilities, whichever is more observable.

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 loan origination (escrow deposits) and operating real estate (escrows for taxes, insurance, capital expenditures, security deposits received from tenants and payments required under certain lease agreements).

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):

	Year Ended December 31,		
	2018	2017	2016
Cash and cash equivalents	$ 73,811	$ 50,046	$ 223,102
Restricted cash	20,697	30,442	28,790
Total cash, cash equivalents and restricted cash	$ 94,508	$ 80,488	$ 251,892

Operating Real Estate

The Company evaluates whether a real estate acquisition constitutes a business and whether business combination accounting is appropriate. The Company accounts for purchases of operating real estate that qualify as business combinations using the acquisition method, where the purchase price is allocated to tangible assets such as land, building, furniture, fixtures, and equipment, improvements and other identified intangibles such as in-place leases, goodwill and above or below market mortgages assumed, as applicable. Costs directly related to an acquisition deemed to be a business combination are expensed and included in transaction costs in the consolidated statements of operations.

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 carried at historical cost less accumulated depreciation. 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 development is substantially completed.

In a situation in which a net lease(s) associated with a significant tenant has been, or is expected to be, terminated early, the Company evaluates the remaining useful life of depreciable or amortizable assets in the asset group related to the lease that will be terminated (i.e., tenant improvements, above- and below-market lease intangibles, in-place lease value and deferred leasing costs). Based upon consideration of the facts and circumstances surrounding the termination, the Company may write-off or accelerate the depreciation and amortization associated with the asset group. Such amounts are included within rental and other income for above- and below-market lease intangibles and depreciation and amortization for the remaining lease related asset groups in the consolidated statements of operations.

When the Company acquires a controlling interest in an existing unconsolidated joint venture, the Company records the consolidated investment at the updated purchase price, which is reflective of fair value. The difference between the carrying value of the Company's investment in the existing unconsolidated joint venture on the acquisition date and the Company's share of the fair value of the investment's purchase price is recorded in gain (loss) on consolidation of unconsolidated venture in the Company's consolidated statements of operations.

The Company may from time to time enter into capital leases in order to finance tangible assets, such as equipment, at properties. A lease is classified as a capital lease if it provides for transfer of ownership of the leased asset at the end of the lease term, contains a bargain purchase option, has a lease term greater than 75.0% of the economic life of the leased asset, or if the net present value of the future minimum lease payments are in excess of 90.0% of the fair value of the leased asset. Assets under capital leases are amortized over either the useful life of the asset or lease term, as appropriate, on a straight line basis. The present value of the related lease payments is recorded as a debt obligation.

The Company has entered into capital leases for equipment totaling $3.2 million which is included in furniture, fixtures, and equipment within operating real estate on the Company's consolidated balance sheets. The leased equipment is amortized on a straight line basis over seven years. The following table presents the future minimum lease payments under capital leases and the present value of the minimum lease payments as of December 31, 2018, which is included in other liabilities on the Company's consolidated balance sheets (dollars in thousands):

Years Ending December 31:		
2019	$	675
2020		636
2021		597
2022		505
2023		83
Thereafter		—
Total minimum lease payments	$	2,496
Less: Amount representing interest	$	(262)
Present value of minimum lease payments	$	2,234

The weighted average interest rate related to the lease obligations is 5.5% with a final maturity date in August 2023.

Assets Held For Sale

The Company classifies certain long-lived assets as held for sale once the criteria, as defined by U.S. GAAP, have been met and are expected to sell within one year. Long-lived assets to be disposed of are reported at the lower of their carrying amount or fair value minus cost to sell, with any write-down recorded to impairment loss on the consolidated statements of operations. Depreciation and amortization is not recorded for assets classified as held for sale. As of December 31, 2018, the Company reclassified one of its operating real estate properties in the Peregrine portfolio as held for sale, as presented on its consolidated balance sheets. No operating real estate was classified as held for sale on the Company's consolidated balance sheets as of December 31, 2017.

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 that are deemed to be impaired record an allowance for loan losses, which is generally measured as the difference between the carrying value of the loan and either the present value of cash flows expected to be collected, discounted at the original effective interest rate of the loan, or an observable market price for the loan. 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.

Healthcare-Related Securities

The Company classifies its securities investments as available for sale on the acquisition date, which are carried at fair value. Unrealized gains (losses) on available for sale securities are recorded as a component of accumulated OCI in the consolidated statements of equity. However, the Company has elected the fair value option for its available for sale security, and as a result, any unrealized gains (losses) are recorded in unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net in the consolidated statements of operations. Refer to Note 6, "Healthcare-Related Securities" for further discussion.

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, which includes intangible assets (such as the value of the above-market leases, in-place leases, goodwill and other intangibles) and intangible liabilities (such as the value of below-market leases), based on estimated fair value. The value allocated to the identified intangibles are amortized over the remaining lease term. Above/below-market leases for which the Company is the lessor are amortized into rental income, above/below-market leases for which the Company is the lessee are amortized into real estate properties-operating expense and in-place leases are amortized into depreciation and amortization expense.

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. During the year ended December 31, 2018, the Company sold an operating property, which was part of a reporting unit with goodwill. The Company determined that the carrying value of the property was in excess of its fair value, which resulted in the impairment of goodwill totaling $0.7 million, proportionate to the fair value of the reporting unit.

Identified intangible assets are recorded in deferred costs and intangible assets, net on the consolidated balance sheets. The following table presents a summary of deferred costs and intangible assets, net as of December 31, 2018 and 2017 (dollars in thousands):

	December 31, 2018	December 31, 2017
Deferred costs and intangible assets, net:		
In-place lease value, net	$ 14,559	$ 61,593
Goodwill	21,387	22,112
Other intangible assets	380	380
Subtotal intangible assets	36,326	84,085
Deferred costs, net	670	635
Total	$ 36,996	$ 84,720

The Company recorded $47.3 million and $51.7 million of in-place lease and deferred cost amortization expense for the years ended December 31, 2018 and 2017, respectively.

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

Years Ending December 31:	
2019	$ 8,420
2020	2,093
2021	1,871
2022	592
2023	337
Thereafter	1,916
Total	$ 15,229

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 year ended December 31, 2018, total acquisition fees and expenses incurred to third parties did not exceed the allowed limit for any investment. An acquisition fee incurred related to an equity investment will generally be expensed as incurred. An acquisition fee paid to the Advisor related to the acquisition of an equity or debt investment in an unconsolidated joint venture is included in investments in unconsolidated ventures on the consolidated balance sheets. An acquisition fee paid to the Advisor related to the origination or acquisition of debt investments is included in real estate debt investments, net on the consolidated balance sheets and is amortized to interest income over the life of the investment using the effective interest method. The Company records as an expense 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 as of December 31, 2018 and 2017 (dollars in thousands):

	December 31, 2018	December 31, 2017
Other assets:		
Healthcare facility regulatory reserve deposit	$ 6,000	$ 6,000
Remainder interest in condominium units(1)	3,025	3,704
Prepaid expenses	3,536	3,352
Lease / rent inducements, net	1,254	1,691
Utility deposits	325	503
Construction deposit	—	993
Other	320	1,231
Total	$ 14,460	$ 17,474

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

Revenue Recognition

Operating Real Estate

Rental income includes rental and escalation income from operating real estate and is derived from leasing of space to various types of tenants and healthcare operators. 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. 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. Escalation income represents revenue from tenant/operator leases which provide for the recovery of all or a portion of the operating expenses and real estate taxes paid by the Company on behalf of the respective property. This revenue is recognized in the same period as the expenses are incurred.

The Company also generates operating income from operating healthcare properties. Revenue related to operating healthcare properties includes resident room and care charges 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 and is recorded in resident fee income in the consolidated statements of operations.

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.

Healthcare-Related Securities

Interest income is recognized using the effective interest method with any premium or discount amortized or accreted through earnings based on expected cash flow through the expected maturity date of the security. Changes to expected cash flow may result in a change to the yield which is then applied retrospectively for high-credit quality securities that cannot be prepaid or otherwise settled in such a way that the holder would not recover substantially all of the investment or prospectively for all other securities to recognize interest income.

Credit Losses and Impairment on Investments

Generally, the carrying value of the Company's investments represent depreciated historical cost bases or, for investments that have been previously impaired, fair value or net realizable value. Such amounts are based upon the Company's reasonable assumptions about the highest and best use of the investments and the intent and ability to hold the investments for a reasonable period that would allow for the recovery of the investments' carrying values. If such assumptions change, including shortening the expected hold period, impairment losses on investments may be required to adjust carrying values to fair value or fair value less costs to sell.

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.

As of December 31, 2018, the Company has impaired the following properties:

- Winterfell portfolio. Impairment totaling $24.0 million was recorded for two facilities as a result of sustained declines in occupancy.
- Kansas City portfolio. Impairment totaling $4.4 million was recorded for two facilities as a result of poor operating performance.
- Peregrine portfolio. Impairment totaling $10.1 million was recorded for two facilities as a result of deteriorating operating results of the tenant and reclassification of a facility as held for sale.
- Watermark portfolio. Impairment totaling $2.8 million was recorded to reflect net realizable value as a result of designating a property and its operations as held for sale. The property was sold in August 2018.

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, the Company establishes, on a current basis, an allowance for future tenant/operator/resident credit losses on unbilled rent receivable based on an evaluation of the collectability of such amounts.

Real Estate Debt Investments

Real estate debt investments are considered impaired when, based on current information and events, it is probable that the Company will not be able to collect all principal and interest amounts due according to the contractual terms. The Company assesses the credit quality of the portfolio and adequacy of reserves on a quarterly basis or more frequently as necessary. Significant judgment of the Company is required in this analysis. The Company considers the estimated net recoverable value of the investment 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 quality and financial condition of the borrower and the competitive situation of the area where the underlying collateral is located. Because this determination is based on projections of future economic events, which are inherently subjective, the amount ultimately realized may differ materially from the carrying value as of the balance sheet date. If upon completion of the assessment, the estimated fair value of the underlying collateral is less than the net carrying value of the investment, a reserve is recorded with a corresponding charge to a credit provision. The reserve for each investment is maintained at a level that is determined to be adequate by management to absorb probable losses.

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 impaired investment is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the principal of an impaired 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. As of December 31, 2018, the Company did not have any impaired real estate debt investments.

Investments in Unconsolidated Ventures

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

As of December 31, 2018, certain of the unconsolidated ventures in which the Company invests have recorded impairments and the Company has concluded that no additional impairment of its investments in unconsolidated ventures is required. The Company's proportionate ownership share of a loan loss reserve within the Espresso portfolio totaled $11.4 million and was recognized through equity in earnings (losses) of unconsolidated ventures during the year ended December 31, 2017. During the third quarter of 2017, the Espresso sub-portfolio associated with the direct financing lease commenced an operator transition and determined certain future cash flows of the direct financing lease to be uncollectible. The cash flows deemed uncollectible primarily impact distributions on mandatorily redeemable units issued at the time of the original acquisition that allowed the seller to participate in certain future cash flows from the direct financing lease following the closing of the original acquisition. Pursuant to ASC 480, *Distinguishing Liabilities from Equity*, the redemption value of the corresponding unconsolidated venture's liability for the units issued to the seller was not assessed until the termination of the lease, which occurred in the third quarter of 2018. As a result of the lease termination, the unconsolidated venture determined the value of the liability for the units issued to the seller to be zero and recognized a gain on the extinguishment of the liability, of which the Company's proportionate share totaled $14.1 million and was recognized through equity in earnings (losses) of unconsolidated ventures during the year ended December 31, 2018. Further, upon termination of the lease, the direct financing lease assets were reclassified to operating real estate and recorded at the lower of cost or fair value, resulting in an impairment, of which our proportionate share totaled $13.9 million and was also recognized through equity in earnings (losses) of unconsolidated ventures during the year ended December 31, 2018.

In addition to the impairment and reserves referenced above, the Espresso portfolio recorded an additional loan loss reserve for a separate sub-portfolio during the fourth quarter of 2018, of which the Company's proportionate share totaled $13.9 million.

The Company's investment in the Griffin-American joint venture has $1.7 billion of non-recourse mortgage debt on certain properties in the joint venture that matures in December 2019. The Sponsor, who is an equity partner in the Griffin-American joint venture, is currently evaluating options in connection with the December 2019 scheduled maturity of this debt, of which the Company's proportionate share is approximately $246 million. In connection with pursuing the options available, the joint venture has re-evaluated certain assumptions, including the holding period of the real estate assets collateralizing the debt, which has resulted in impairment of these assets, of which the Company's proportionate share totaled $7.7 million and was recognized through equity in earnings (losses) of unconsolidated ventures during the year ended December 31, 2018.

Healthcare-Related Securities

Securities for which the fair value option is elected are not evaluated for other-than-temporary impairment ("OTTI") as any change in fair value is recorded in the consolidated statements of operations. Realized losses on such securities are reclassified to realized gain (loss) on investments and other as losses occur. Securities for which the fair value option is not elected are evaluated for OTTI quarterly.

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. The resulting foreign currency remeasurement adjustment is recorded in unrealized gain (loss) on investments and other in the consolidated statements of operations.

As of December 31, 2018 and December 31, 2017, the Company had exposure to foreign currency through an investment in an unconsolidated venture.

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, income and share ownership tests are met. To maintain its qualification as a REIT, the Company must annually distribute at least 90.0% of its REIT taxable income 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 2015 to 2018, and concluded there were no material uncertainties to be recognized. The Company has not recognized any such amounts related to uncertain tax positions for the years ended December 31, 2018, 2017, and 2016.

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 non-customary 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 sheet date. The Company evaluates the realizability of its deferred tax assets (e.g., net operating loss and capital loss carryforwards) and recognizes a valuation allowance if, based on the available evidence, it is more likely than not that some portion or all of its deferred tax assets will not be realized. When evaluating the realizability of its deferred tax assets, the Company considers estimates of expected future taxable income, existing and projected book/tax differences, tax planning strategies available and the general and industry specific economic outlook. This realizability analysis is inherently subjective, as it requires the Company to forecast its business and general economic environment in future periods. Changes in estimate of deferred tax asset realizability, if any, are included in provision for income tax benefit (expense) in the consolidated statements of operations. The Company has a deferred tax asset, which as of December 31, 2018 totaled $11.0 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 $114,000, $43,000 and $7.1 million for the years ended December 31, 2018, 2017 and 2016 respectively.

Recent Accounting Pronouncements

Recently Adopted

Revenue Recognition—In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* ("New Revenue Recognition Standard"), requiring a company to recognize as revenue the amount of consideration it expects to be entitled to in connection with the transfer of promised goods or services to customers. The Company has adopted the New Revenue Recognition Standard on its required effective date of January 1, 2018 using the modified retrospective approach, and has applied the guidance to contracts not yet completed as of the date of adoption. The New Revenue Recognition Standard specifically excludes revenue streams for which specific guidance is stipulated in other sections of the codification, therefore it will not impact rental income and interest income generated on financial instruments such as real estate debt investment and securities.

The Company is the lessor for triple net and gross leases classified as operating leases in which rental income and tenant reimbursements are recorded. The revenue from these leases are scoped out of the New Revenue Recognition Standard guidance. All leases are accounted for under ASC 840 until the adoption of the new leasing guidance within ASC 842. Within resident fee income, the Company records room, care and other resident service revenue for operating healthcare properties. Such revenues include skilled nursing services provided at CCRCs, which were deemed to fall under the New Revenue Recognition Standard. These services are a series of distinct services satisfied over time and revenue is recognized monthly. There were no significant changes as a result of the New Revenue Recognition Standard.

Financial Instruments—In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU No. 2016-01 addresses certain aspects of accounting and disclosure requirements of financial instruments, including the requirement that equity investments with readily determinable fair value be measured at fair value with changes in fair value recognized in results of operations. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company does not have any equity investments with readily determinable fair value recorded as available-for-sale. The Company has adopted this guidance on its required effective date and it did not impact its consolidated financial statements and related disclosures.

Cash Flow Classifications—In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments,* which makes eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The new guidance requires adoption on a retrospective basis unless it is impracticable to apply, in which case the company would be required to apply the amendments prospectively as of the earliest date practicable. The Company has adopted this guidance and it did not have a material impact on its consolidated financial statements and related disclosures.

Restricted Cash—In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows: Restricted Cash,* which requires that cash and cash equivalent balances in the statement of cash flows include restricted cash and restricted cash equivalent amounts, and therefore, changes in restricted cash and restricted cash equivalents be presented in the statement of cash flows. This will eliminate the presentation of transfers between cash and cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item of the balance sheet, this ASU requires disclosure of a reconciliation between the totals in the statement of cash flows and the related captions on the balance sheet. The new guidance also requires disclosure of the nature of the restricted cash and restricted cash equivalents, similar to the existing requirements under Regulation S-X, however, it does not define restricted cash and restricted cash equivalents. The Company adopted ASU 2016-18 on January 1, 2018 and the required retrospective application of this new standard resulted in changes to the previously reported statement of cash flows as follows (dollars in thousands):

	Year Ended December 31, 2017		Year Ended December 31, 2016	
Cash flow provided by (used in):	**As Previously Reported**	**After Adoption of ASU 2016-18**	**As Previously Reported**	**After Adoption of ASU 2016-18**
Operating activities	$ 11,708	$ 10,129	$ 3,972	$ 5,376
Investing activities	(305,331)	(314,394)	(74,331)	(60,355)
Financing activities	97,916	132,861	(60,768)	(62,970)

Business Combination—In January 2017, the FASB issued ASU No. 2017-01, *Clarifying the Definition of a Business*, which amends the guidance for determining whether a transaction involves the purchase or disposal of a business or an asset. The amendments clarify that when substantially all of the fair value of the gross assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets, the set of transferred assets and activities is not a business. The guidance is effective for fiscal years, and interim periods within those years, beginning December 15, 2017. The amendments in this update will be applied on a prospective basis. The Company expects that most acquisitions of real estate or in-substance real estate will not meet the revised definition of a business because substantially all of the fair value is concentrated in a single identifiable asset or group of similar identifiable assets (i.e., land, buildings and related intangible assets). A significant difference between the accounting for an asset acquisition and a business combination is that transaction costs are capitalized for an asset acquisition, rather than expensed for a business combination. The Company adopted the standard on its required effective date of January 1, 2018. This guidance did not have a material impact on its consolidated financial statements and related disclosures.

Derecognition and Partial Sales of Nonfinancial Assets—In February 2017, the FASB issued ASU No. 2017-05, *Clarifying the Scope of Asset Derecognition and Accounting for Partial Sales of Nonfinancial Assets,* which clarifies the scope and application of recently established guidance on recognition of gains and losses from derecognition of non-financial assets, and defines in-substance non-financial assets. In addition, the guidance clarifies the accounting for partial sales of non-financial assets to be more consistent with the accounting for sale of a business. Specifically, in a partial sale to a non-customer, when a non-controlling interest is received or retained, the latter is considered a non-cash consideration and measured at fair value, which would result in full gain or loss recognized upon sale. This guidance has the same effective date as the new revenue guidance, which is January 1, 2018, with early adoption permitted beginning January 1, 2017. Both the revenue guidance and this update must be adopted concurrently. While the transition method is similar to the new revenue guidance, either full retrospective or modified retrospective, the transition approach need not be aligned between both updates. The Company has adopted the standard on its required effective date of January 1, 2018 using the modified retrospective approach. Under the new standard, if the Company sells a partial interest in its real estate assets to non-customers or contributes real estate assets to unconsolidated ventures, and the Company retains a non-controlling interest in the asset, such transactions could result in a larger gain on sale. The adoption of this standard could have a material impact to the Company's results of operations in a period if the Company sells a significant partial interest in a real estate asset. There were no such sales for the year ended December 31, 2018.

Pending Adoption

Leases—In February 2016, the FASB issued ASU No. 2016-02, Leases, which amends existing lease accounting standards, primarily requiring lessees to recognize most leases on balance sheet as a right of use asset and a corresponding liability for future lease obligations, and to a lesser extent, making targeted changes to lessor accounting. Additionally, under the new lease standard, only incremental initial direct costs incurred in the execution of a lease can be capitalized by both lessor and lessee.

ASU No. 2016-02 is effective for fiscal years and interim periods beginning after December 15, 2018. Early adoption is permitted. The new leases standard requires adoption using a modified retrospective approach for all leases existing at, or entered into after, the date of initial application. Full retrospective application is prohibited. In applying the modified retrospective approach, the standard provides the option to elect a package of practical expedients that exempts an entity from having to reassess whether any expired or expiring contracts contain leases, revisit lease classification for any expired or expiring leases and reassess initial direct costs for any existing leases.

In July 2018, the FASB issued ASU No. 2018-11, Targeted Improvements to Topic 842, Leases, which provides the option of (i) applying the effective date of the new lease standard as the date of initial application in transition instead of the earliest comparative period presented; as well as (ii) electing as practical expedient, by class of underlying asset, not to segregate lease and non-lease components in a contract but to account for it as a single component in accordance with either the new lease standard or the revenue standard depending on whether the lease or non-lease component is predominant.

In December 2018, the FASB issued ASU No. 2018-20, Narrow Scope Improvements for Lessors, which provides certain practical expedients for lessor accounting. ASU No. 2018-20: (i) allows lessor to make an accounting policy election to present on a net basis sales and similar taxes arising from a leasing transaction with related collections from lessee (otherwise to present on a gross basis if lessor is determined to be the primary obligor); (ii) requires net presentation of lessor costs paid directly by lessee to a third party (for example, property taxes and insurance paid directly by lessee) and gross presentation of lessor costs that are paid by the lessor and reimbursed by the lessee (for example, property taxes and insurance initially paid by lessor and reimbursed by lessee); and (iii) requires allocation of variable payments to lease and non-lease components when applicable changes in facts and circumstances occur and that the non-lease component be subject to recognition under other applicable guidance, such as the revenue standard.

The Company will adopt the new lease standard effective January 1, 2019 and will adopt the package of practical expedients as well as the transition option. As a result, the Company will apply the new lease standard prospectively to leases existing or commencing on or after January 1, 2019. Comparative periods presented will not be restated upon adoption. Similarly, new disclosures under the standard will be made for periods beginning January 1, 2019, and not for comparative periods. In addition, the Company, as lessor, will make accounting policy elections to: (i) treat the lease and non-lease components in a contract as a single performance obligation to the extent that the timing and pattern of transfer are similar for the lease and non-lease components and the lease component qualifies as an operating lease; and (ii) to present on a net basis sales and similar taxes from leasing transactions.

The Company is in the process of finalizing the evaluation of its leasing arrangements. The Company has not noted any significant items that will require a gross-up of a right of use asset and lease liability on its balance sheet at this time. The Company is not the lessee of any office or ground leases. The effect of the new standard to the Company, as lessor, is not expected to materially effect its financial condition or results of operations.

Credit Losses—In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments- Credit Losses*, which changes the impairment model for certain financial instruments by requiring companies to recognize an allowance for expected losses, rather than incurred losses as required currently by the incurred loss approach. The guidance will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases and off-balance-sheet credit exposures (e.g., loan commitments). The new guidance is effective for reporting periods beginning after December 15, 2019 and will be applied as a cumulative adjustment to retained earnings as of the effective date. The Company is currently assessing the potential effect the adoption of this guidance will have on its consolidated financial statements and related disclosures.

Goodwill Impairment—In January 2017, the FASB issued ASU No. 2017-04, *Intangibles- Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,* which removes Step 2 from the goodwill impairment test that requires a hypothetical purchase price allocation. Goodwill impairment is now measured as the excess in carrying value over fair value of the reporting unit, with the loss recognized not to exceed the amount of goodwill assigned to that reporting unit. The guidance is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019, to be applied prospectively. Early adoption is permitted as of the first interim or annual impairment test of goodwill after January 1, 2017. The Company is currently assessing the potential effect the adoption of this guidance will have on its consolidated financial statements and related disclosures.

3. Operating Real Estate

The following table presents operating real estate, net as of December 31, 2018 and 2017 (dollars in thousands):

	December 31, 2018	December 31, 2017
Land	$ 236,736	$ 239,580
Land improvements	22,453	21,908
Buildings and improvements	1,580,058	1,608,180
Tenant improvements	11,774	8,291
Construction in progress	5,605	5,376
Furniture, fixtures and equipment	93,371	83,017
Subtotal	1,949,997	1,966,352
Less: Accumulated depreciation	(171,083)	(113,924)
Operating real estate, net	$ 1,778,914	$ 1,852,428

For the years ended December 31, 2018, 2017 and 2016, depreciation expense was $59.3 million, $53.8 million and $40.8 million, respectively.

Within the table above, buildings and improvements includes impairment totaling $31.0 million and $5.0 million as of December 31, 2018 and 2017, respectively. Impairment recorded for the years ended December 31, 2018 and 2017 totaled $36.3 million and $5.0 million, respectively, is included in impairment loss in the consolidated statements of operations.

Dispositions

In August 2018, through a joint venture with an affiliate of Watermark Retirement Communities (“Watermark”), the Company completed the sale of an operating real estate property located in Southfield, Michigan for $12.0 million. Proceeds from the sale were used to repay the outstanding mortgage note payable of $9.0 million, resulting in $2.7 million of net proceeds to the joint venture, after transaction costs and prorations. The joint venture is owned 97.0% by a subsidiary of the Company and 3.0% by Watermark.

Minimum Future Rents

Minimum rental amounts due under leases are generally either subject to scheduled fixed increases or adjustments. The following table presents approximate future minimum rental income under noncancelable operating leases to be received over the next five years and thereafter as of December 31, 2018 are as follows (dollars in thousands):

Years Ending December 31:[(1)]	
2019	$ 33,405
2020	34,240
2021	35,096
2022	14,635
2023	10,919
Thereafter	68,268
Total	$ 196,563

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

Excluding ILFs, which are managed by operators on the Company’s behalf, net lease rental properties owned as of December 31, 2018 are leased under noncancelable operating leases with current expirations ranging from 2021 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.

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 as of December 31, 2018 and 2017 and activity for the years ended December 31, 2018 and 2017 (dollars in thousands):

						Properties as of December 31, 2018(1)				
Portfolio	Partner	Acquisition Date	Ownership	Purchase Price(2)	Equity Investment(3)	Senior Housing Facilities	MOB	SNF	Hospitals	Total
Eclipse	Colony Capital/ Formation Capital, LLC	May-2014	5.6%	$1,048,000	$ 23,400	44	—	32	—	76
Envoy(4)	Formation Capital, LLC/ Safanad Management Limited	Sep-2014	11.4%	145,000	5,000	—	—	—	—	—
Griffin-American	Colony Capital	Dec-2014	14.3%	3,238,547	206,143	92	108	41	14	255
Espresso	Formation Capital, LLC/ Safanad Management Limited	Jul-2015	36.7%	870,000	55,146	6	—	150	—	156
Trilogy	Griffin-American Healthcare REIT III & IV /Management Team of Trilogy Investors, LLC	Dec-2015	23.2%	1,162,613	186,632	9	—	70	—	79
Subtotal				$6,464,160	$ 476,321	151	108	293	14	566
Operator Platform(5)		Jul-2017	20.0%	2	2	—	—	—	—	—
Total				$6,464,162	$ 476,323	151	108	293	14	566

(1) Excludes six properties sold during the year ended December 31, 2018 and twelve properties designated as held for sale as of December 31, 2018.
(2) Purchase price represents the actual or implied gross purchase price for the joint venture on the acquisition date. Purchase price is not adjusted for subsequent acquisitions or dispositions of interest.
(3) Represents initial and subsequent contributions to the underlying joint venture through December 31, 2018. During the year ended December 31, 2018, the Company funded an additional capital contribution of $4.5 million into the Trilogy joint venture. The additional funding related to certain business initiatives, including the development of additional senior housing and SNFs. In October 2018, the Company sold 20.0% of our 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%.
(4) All remaining properties within the Envoy portfolio have been reclassified as held for sale as of December 31, 2018. In March 2019, the Envoy joint venture completed the sale of the 11 properties, for a sales price of $118.0 million.
(5) Represents investment in Solstice Senior Living, LLC ("Solstice"). In November 2017, the Company began the transition of operations of the Winterfell portfolio from the former manager, an affiliate of Holiday Retirement, to a new manager, Solstice. Solstice is a joint venture between affiliates of Integral Senior Living, LLC ("ISL"), a leading management company of ILF, ALF and MCF founded in 2000, which owns 80.0%, and the Company, which owns 20.0%.

	Year Ended December 31, 2018			Year Ended December 31, 2017			Carrying Value(2)	
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	December 31, 2018	December 31, 2017
Eclipse	$ (624)	$ (2,280)	$ 754	$ (1,562)	$ (3,401)	$ 1,227	$ 11,765	$ 13,143
Envoy	(37)	(301)	283	(934)	(1,349)	427	4,717	5,037
Griffin-American(3)	(12,717)	(24,780)	5,553	(6,885)	(18,728)	8,505	113,982	134,219
Espresso(4)(5)	(21,460)	(26,906)	—	(20,737)	(32,752)	3,307	—	5,308
Trilogy(6)	1,153	(14,810)	5,977	(5,224)	(23,193)	—	133,764	167,845
Subtotal	$ (33,685)	$ (69,077)	$ 12,567	$ (35,342)	$ (79,423)	$ 13,466	$ 264,228	$ 325,552
Operator Platform(7)	168	—	107	28	—	—	91	30
Total	$ (33,517)	$ (69,077)	$ 12,674	$ (35,314)	$ (79,423)	$ 13,466	$ 264,319	$ 325,582

(1) Represents the net amount of the Company's proportionate share of the following revenues and expenses: 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, impairment, as well as unrealized and realized gain (loss) from sales of real estate and investments.
(2) Includes $1.3 million, $0.4 million, $13.4 million, $7.6 million, and $9.8 million of capitalized acquisition costs for the Company's investments in the Eclipse, Envoy, Griffin-American, Espresso and Trilogy joint ventures, respectively. During the year ended December 31, 2018, the Company expensed, through equity in earnings, the capitalized acquisition costs for the Company's investment in the Envoy joint venture, which reduced the carrying value.

(3) Includes impairment recorded by the joint venture, of which the Company's proportionate share totaled $7.7 million. Refer to "Credit Losses and Impairment on Investments" in Note 2, "Summary of Significant Accounting Policies" for additional discussion.
(4) As a result of impairments and other non-cash reserves recorded by the joint venture, the Company's carrying value of its Espresso unconsolidated investment was reduced to zero as of December 31, 2018. The Company has recorded the excess equity in losses related to its unconsolidated venture as a reduction to the carrying value of its mezzanine loan, which was originated to a subsidiary of the Espresso joint venture.
(5) For the years ended December 31, 2018 and 2017, equity in earnings (losses) included a liability extinguishment gain recorded by the joint venture, of which the Company's proportionate share totaled $14.1 million, and a loan loss reserve recorded by the joint venture, of which the Company's proportionate share totaled $11.4 million, respectively. Refer to "Credit Losses and Impairment on Investments" in Note 2, "Summary of Significant Accounting Policies" for additional discussion.
(6) 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%.
(7) Represents the Company's investment in Solstice.

Summarized Financial Data

The combined balance sheets as of December 31, 2018 and 2017 and combined statements of operations for the years ended December 31, 2018, 2017 and 2016 for the Company's unconsolidated ventures are as follows (dollars in thousands):

	December 31, 2018	December 31, 2017
Assets		
Operating real estate, net	$ 5,016,977	$ 4,879,168
Other assets	1,003,614	1,318,504
Total assets	$ 6,020,591	$ 6,197,672
Liabilities and equity		
Total liabilities	$ 4,565,451	$ 4,547,846
Equity	1,455,140	1,649,826
Total liabilities and equity	$ 6,020,591	$ 6,197,672

	Year Ended December 31, 2018	2017	2016
Total revenues	$ 1,514,098	$ 1,457,208	$ 1,461,890
Net income (loss)	$ (150,170)	$ (158,445)	$ (243,503)

5. Real Estate Debt Investments

The following table presents the Company's one debt investment as of December 31, 2018 and December 31, 2017 (dollars in thousands):

		Carrying Value[(2)]			
Asset Type:	Principal Amount	December 31, 2018	December 31, 2017	Fixed Rate	Unlevered Current Yield
Mezzanine loan[(1)]	$ 75,000	$ 58,600	$ 74,650	10.0%	10.3%

(1) Loan has a final maturity date of January 30, 2021.
(2) As a result of impairments and other non-cash reserves recorded by the joint venture, the Company's carrying value of its Espresso unconsolidated investment was reduced to zero as of December 31, 2018. The Company has recorded the excess equity in losses related to its unconsolidated investment as a reduction to the carrying value of its mezzanine loan, which was originated to a subsidiary of the Espresso joint venture.

Credit Quality Monitoring

The Company evaluates its debt investments at least quarterly and differentiates the relative credit quality principally 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 at maturity. The Company categorizes a debt investment for which it expects to receive full payment of contractual principal and interest payments as "performing." The Company will categorize a weaker credit quality debt investment that is currently performing, but for which it believes future collection of all or some portion of principal and interest is in doubt, into a category called "performing with a loan loss reserve." The Company will categorize a weaker credit quality debt investment that is not performing, which the Company defines as a loan in maturity default and/or past due at least 90 days on its contractual debt service payments, as a non-performing loan ("NPL"). The Company's definition of an NPL may differ from that of other companies that track NPLs.

As of December 31, 2018, the Company's debt investment was not performing in accordance with the contractual terms of its governing documents. The Company's debt investment is a mezzanine loan to the Espresso joint venture that has several sub-portfolios, three of which have experienced tenant lease defaults and operator transitions. The underlying tenant defaults resulted in defaults under the senior loans with respect to the applicable sub-portfolios, which in turn resulted in defaults under the mezzanine loan. The Company is actively monitoring the actions of the senior lenders of each sub-portfolio and assessing the Company's rights and remedies. The Company is also actively monitoring the operator transitions and continues to assess the collectability of principal and interest. As of December 31, 2018, contractual debt service has been paid in accordance with contractual terms and the Company expects to receive full payment of contractual principal and interest. Accordingly, the debt investment was categorized as a performing loan.

For the year ended December 31, 2018, the debt investment contributed 100.0% of the Company's interest income on debt investments as presented on the consolidated statement of operations.

6. Healthcare-Related Securities

In October 2016, the Company purchased the Class B certificates in a $575.1 million securitization trust (Freddie Mac 2016-KS06 Mortgage Trust), which is secured by a pool of 41 mortgage loans related to senior housing facilities with a weighted average maturity of 9.8 years at the time of the acquisition. The securitization trust issued $517.6 million of permanent, non-recourse, investment grade securitization bonds, or Class A certificates, which were purchased by unrelated third parties, and $57.5 million of subordinate Class B certificates which were purchased by the Company at a discount to par of $27.0 million, or 47.0%, and have a fixed coupon of 4.47%, producing a bond equivalent yield of 13.1%.

U.S. GAAP required the Company to consolidate the assets, liabilities, income and expenses of the securitization trust as an Investing VIE. Refer to Note 2, "Summary of Significant Accounting Policies" for further discussion on Investing VIEs.

In March 2018, the Company sold the Class B certificates of its consolidated Investing VIE and no longer presented the assets or liabilities of the entire securitization trust on its consolidated balance sheets as of December 31, 2018. The Company has presented the income and expenses of the entire securitization trust on its consolidated statements of operations for the period that the Company owned the Class B certificates in 2018. The Company recorded a gain of $3.5 million related to the sale of the Class B certificates in realized gain (loss) on investments and other on its consolidated statement of operations for the year ended December 31, 2018.

The following table presents the assets and liabilities recorded on the consolidated balance sheets attributable to the securitization trust as of December 31, 2017 (dollars in thousands):

		December 31, 2017
Assets		
Senior housing mortgage loans held in a securitization trust, at fair value	$	545,048
Receivables		2,127
Total assets	$	547,175
Liabilities		
Senior housing mortgage obligations issued by a securitization trust, at fair value	$	512,772
Accounts payable and accrued expenses		1,918
Total liabilities	$	514,690

The Company elected the fair value option to measure the assets and liabilities of the securitization trust, which requires that changes in valuations of the securitization trust be reflected in the Company's consolidated statements of operations.

The difference between the carrying values of the senior housing mortgage loans held in the securitization trust and the carrying value of the securitized mortgage obligations was $32.3 million as of December 31, 2017 and approximates the fair value of the Company's underlying investment in Class B certificates of the securitization trust. Refer to Note 12, "Fair Value" for a description of the valuation techniques used to measure fair value of assets and liabilities of the Investing VIE.

The following table presents the activity recorded for the years ended December 31, 2018, 2017 and 2016 related to the securitization trust on the consolidated statements of operations (dollars in thousands):

	Year Ended December 31,		
	2018	2017	2016
Statements of Operations			
Interest income on mortgage loans held in a securitized trust	$ 5,149	$ 25,955	$ 5,022
Interest expense on mortgage obligations issued by a securitization trust	(3,824)	(19,510)	(3,772)
Net interest income	1,325	6,445	1,250
Other expenses related to securitization trust	(811)	3,922	765
Transaction costs	—	—	57
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net	—	1,503	298
Net income attributable to NorthStar Healthcare Income, Inc. common stockholders	$ 514	$ 4,026	$ 726

For the year ended December 31, 2018, the consolidated securitization trust contributed 100.0% of the Company's interest income on mortgage loans held in a securitized trust as presented on the consolidated statements of operations.

7. Borrowings

The following table presents the Company's borrowings as of December 31, 2018 and 2017 (dollars in thousands):

	Recourse vs. Non-Recourse	Final Maturity	Contractual Interest Rate(1)	December 31, 2018 Principal Amount(2)	December 31, 2018 Carrying Value(2)	December 31, 2017 Principal Amount(2)	December 31, 2017 Carrying Value(2)
Mortgage notes payable, net							
Peregrine Portfolio(3)							
Various locations	Non-recourse	Dec-19	LIBOR + 3.50%	$ 16,545	$ 16,277	$ 23,417	$ 23,030
Watermark Aqua Portfolio							
Denver, CO	Non-recourse	Feb-21	LIBOR + 2.92%	20,866	20,774	21,193	21,053
Frisco, TX	Non-recourse	Mar-21	LIBOR + 3.04%	19,460	19,377	19,755	19,630
Milford, OH	Non-recourse	Sep-26	LIBOR + 2.68%	18,760	18,288	18,760	18,216
Rochester Portfolio							
Rochester, NY	Non-recourse	Feb-25	4.25%	20,849	20,734	21,444	21,312
Rochester, NY(4)	Non-recourse	Aug-27	LIBOR + 2.34%	101,224	100,162	101,224	100,061
Arbors Portfolio(5)							
Various locations	Non-recourse	Feb-25	3.99%	90,751	89,508	92,407	90,913
Watermark Fountains Portfolio(6)							
Various locations	Non-recourse	Jun-22	3.92%	399,023	396,421	410,000	406,207
Various locations	Non-recourse	Jun-22	5.56%	75,401	74,776	75,401	74,776
Winterfell Portfolio(7)							
Various locations	Non-recourse	Jun-25	4.17%	642,954	622,329	648,211	624,656
Avamere Portfolio(8)							
Various locations	Non-recourse	Feb-27	4.66%	72,466	71,848	72,466	71,771
Subtotal mortgage notes payable, net				1,478,299	1,450,494	1,504,278	1,471,625
Other notes payable							
Oak Cottage							
Santa Barbara, CA	Non-recourse	Feb-22	6.00%	3,500	3,500	3,500	3,500
Rochester Portfolio							
Rochester, NY	Non-recourse	Aug-19	6.00%	12,355	12,355	12,355	12,355
Subtotal other notes payable, net				15,855	15,855	15,855	15,855
Total mortgage and other notes payable, net				$ 1,494,154	$ 1,466,349	$ 1,520,133	$ 1,487,480

(1) Floating rate borrowings are comprised of $160.3 million principal amount at one-month London Interbank Offered Rate ("LIBOR") and $16.5 million principal amount at three-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) Mortgage note arrangement is secured and collateralized by three healthcare real estate properties.
(4) Comprised of seven individual mortgage notes payable secured by seven healthcare real estate properties, cross-collateralized and subject to cross-default.
(5) Comprised of four individual mortgage notes payable secured by four healthcare real estate properties, cross-collateralized and subject to cross-default.
(6) Includes $399.0 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 $75.4 million of principal, secured by seven healthcare real estate properties, cross-collateralized and subject to cross-default.
(7) Comprised of 32 individual mortgage notes payable secured by 32 healthcare real estate properties, cross-collateralized and subject to cross-default.
(8) 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 scheduled principal payments on borrowings based on final maturity as of December 31, 2018 (dollars in thousands):

Years Ending December 31:		
2019	$	52,170
2020		24,315
2021		63,986
2022		464,997
2023		18,820
Thereafter		869,866
Total	$	1,494,154

As of December 31, 2017, the Company's Peregrine portfolio did not maintain certain minimum financial coverage ratios required under the contractual terms of its mortgage note. Following a partial repayment of the mortgage note in January 2018, the Company was in compliance with the financial covenants. However, during the year ended December 31, 2018, an operator of the Peregrine portfolio failed to remit rental payments in a timely manner, which resulted in a cross-default under the mortgage note agreement as of December 31, 2018.

Colony Capital Line of Credit

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. During 2017, the Company had drawn and fully repaid $25.0 million under the Sponsor Line. The Company did not utilize the Sponsor Line during the year ended December 31, 2018. In March 2018, the Sponsor Line maturity was extended through December 2020.

Corporate Credit Facility

In December 2017, the Company executed a corporate credit facility with Key Bank (the "Corporate Facility"), for up to $25.0 million. The Corporate Facility has a three year term at interest rates ranging between 2.5% and 3.5% plus LIBOR and has not been utilized. As of December 31, 2018, the Company did not have the ability to draw upon the Corporate Facility as a result of not achieving certain continuing financial covenant conditions.

8. 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 2018, the advisory agreement was renewed for an additional one-year term commencing on June 30, 2018, with terms identical to those in effect through June 30, 2018.

Fees to Advisor

Asset Management Fee

From inception through December 31, 2017, the Advisor received a monthly asset management fee equal to one-twelfth of 1.0% of the sum of the amount funded or allocated for investments, including expenses and any financing attributable to such investments, less any principal received on debt and securities investments (or the proportionate share thereof in the case of an investment made through a joint venture).

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.

Acquisition Fee

From inception through December 31, 2017, the Advisor received fees for providing structuring, diligence, underwriting advice and related services in connection with real estate acquisitions equal to 2.25% of each real estate property acquired by the Company, including acquisition costs and any financing attributable to an equity investment (or the proportionate share thereof in the case of an indirect equity investment made through a joint venture or other investment vehicle) and 1.0% of the amount funded or allocated by the Company to acquire or originate debt investments, including acquisition costs and any financing attributable to such investments (or the proportionate share thereof in the case of an indirect investment made through a joint venture or other investment vehicle).

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 may receive 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 does not pay a disposition fee upon the maturity, prepayment, workout, modification or extension of a debt investment unless there is a corresponding fee paid by the borrower, in which case the disposition fee is 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 takes ownership of a property as a result of a workout or foreclosure of a debt investment, the Company will pay a disposition fee upon the sale of such property. A disposition fee from the sale of an investment is 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 is included in debt investments, net on the consolidated balance sheets and is amortized to interest income over the life of the investment using the effective interest method.

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 to the Advisor for the years ended December 31, 2018 and 2017 the amount due to related party as of December 31, 2018, 2017 and 2016 (dollars in thousands):

Type of Fee or Reimbursement	Financial Statement Location	Due to Related Party as of December 31, 2017	Year Ended December 31, 2018 Incurred	Year Ended December 31, 2018 Paid	Due to Related Party as of December 31, 2018
Fees to Advisor Entities					
Asset management[1]	Asset management and other fees-related party	$ —	$ 23,486	$ (21,821) [2]	$ 1,665
Acquisition[2]	Investments in unconsolidated ventures/Asset management and other fees-related party	8	(8)	—	—
Reimbursements to Advisor Entities					
Operating costs[3]	General and administrative expenses	1,038	12,631	(9,659)	4,010
Total		$ 1,046	$ 36,109	$ (31,480)	$ 5,675

(1) Includes $9.0 million paid in shares of the Company's common stock and a $0.2 million gain recognized on the settlement of the share-based payment.
(2) From inception through December 31, 2018, the Advisor waived $0.3 million of acquisition fees related to healthcare-related securities. The Company did not incur any disposition fees during the year ended December 31, 2018, nor were any such fees outstanding as of December 31, 2017.
(3) As of December 31, 2018, the Advisor did not have any unreimbursed operating costs which remained eligible to be allocated to the Company.

Type of Fee or Reimbursement	Financial Statement Location	Due to Related Party as of December 31, 2016	Year Ended December 31, 2017 Incurred	Year Ended December 31, 2017 Paid	Due to Related Party as of December 31, 2017
Fees to Advisor Entities					
Asset management	Asset management and other fees-related party	$ 12	$ 34,302	$ (34,314)	$ —
Acquisition[1]	Investments in unconsolidated ventures/Asset management and other fees-related party	66	8,206	(8,264)	8
Reimbursements to Advisor Entities					
Operating costs[2]	General and administrative expenses	141	11,208	(10,311)	1,038
Total		$ 219	$ 53,716	$ (52,889)	$ 1,046

(1) Acquisition/disposition fees incurred to the Advisor related to debt investments are generally offset by origination/exit fees paid to the Company by borrowers if such fees are required from the borrower. Acquisition fees related to equity investments are included in asset management and other fees-related party in the consolidated statements of operations. Acquisition fees related to investments in unconsolidated joint ventures are included in investments in unconsolidated ventures on the consolidated balance sheets. From inception through December 31, 2017, the Advisor waived $0.3 million of acquisition fees related to healthcare-related securities. The Company did not incur any disposition fees during the year ended December 31, 2017, nor were any such fees outstanding as of December 31, 2016.
(2) As of December 31, 2017, the Advisor did not have any unreimbursed operating costs which remained eligible to be allocated to the Company.

Issuance of Common Stock to the Advisor

Pursuant to the December 2017 amendment of the advisory agreement, for the year ended December 31, 2018, the Company issued 1.1 million shares totaling $9.0 million to an affiliate of the Advisor as part of its asset management fee.

Investments in Joint Ventures

In November 2017, the Company began the transition of operations of the Winterfell portfolio, from the former manager, an affiliate of Holiday Retirement, to a new manager, Solstice. Solstice is a joint venture between affiliates of Integral Senior Living, LLC, a leading management company of ILF, ALF and MCF founded in 2000, which owns 80.0%, and the Company, which owns 20.0%. For the year ended December 31, 2018 the Company recognized property management fee expense of $5.3 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	Dec-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 2016 and 2017, the Company funded additional capital contributions of $18.8 million and $8.3 million, respectively, in accordance with the joint venture agreement. Additionally, in 2018, the Company funded capital contributions of $4.5 million for a total contribution of $233.3 million. The additional fundings related to certain business initiatives, including the acquisition of additional senior housing and skilled nursing facilities and repayment of certain outstanding obligations. 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.

Colony Capital Line of Credit

In October 2017, the Company obtained the Sponsor Line, which provides up to $35.0 million at an interest rate of 3.5% plus LIBOR. Refer to Note 7, "Borrowings" for further discussion.

9. 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. Pursuant to the Plan, as of December 31, 2018, the Company's independent directors were granted a total of 96,625 shares of restricted common stock for an aggregate $0.9 million, based on the share price on the date of each grant. The restricted stock granted prior to 2015 generally vests 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 $0.2 million for the years ended December 31, 2018, 2017 and 2016, 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 as of December 31, 2018 and 2017, respectively. Unvested shares totaled 20,827 and 19,248 as of December 31, 2018 and 2017, respectively.

10. 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

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

For the year ended December 31, 2018, the Company issued 4.0 million shares of common stock totaling $33.7 million of gross offering proceeds pursuant to the DRP. For the year ended December 31, 2017, the Company issued 7.4 million shares of common stock totaling $67.2 million of gross offering proceeds pursuant to the DRP. From inception through December 31, 2018, the Company issued 25.0 million shares of common stock, generating gross offering proceeds of $227.7 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.

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

The following table presents distributions declared for the years ended December 31, 2018, 2017 and 2016 (dollars in thousands):

	Distributions[(1)]		
Period	**Cash**	**DRP**	**Total**
2018			
First Quarter	$ 7,684	$ 7,876	$ 15,560
Second Quarter	8,028	7,722	15,750
Third Quarter	8,374	7,567	15,941
Fourth Quarter	8,653	7,352	16,005
Total	$ 32,739	$ 30,517	$ 63,256
2017			
First Quarter	$ 14,228	$ 16,669	$ 30,897
Second Quarter	14,557	16,804	31,361
Third Quarter	14,899	16,873	31,772
Fourth Quarter	15,082	16,691	31,773
Total	$ 58,766	$ 67,037	$ 125,803
2016			
First Quarter	$ 13,408	$ 16,827	$ 30,235
Second Quarter	13,580	16,915	30,495
Third Quarter	13,974	17,120	31,094
Fourth Quarter	14,261	17,057	31,318
Total	$ 55,223	$ 67,919	$ 123,142

(1) Represents distributions declared for the period, even though such distributions are actually paid to stockholders in the month following such period.

In order to continue to qualify as a REIT, the Company must distribute annually at least 90% of its REIT taxable income. For the years ended December 31, 2018, 2017 and 2016, the Company generated net operating losses for tax purposes and, accordingly, was not required to make distributions to its stockholders to qualify as a REIT. The Company's most recently filed tax return is for the year ended December 31, 2017 and includes a net operating loss carry-forward of $45.7 million.

Effective February 1, 2019, the Company's board of directors determined to suspend distributions in order to preserve capital and liquidity. Refer to Note 16, "Subsequent Events" for additional information regarding distributions.

Share Repurchase Program

The Company adopted a share repurchase program that may enable 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 December 2017, the Company's board of directors approved the following amendments to the Share Repurchase Program:

- Limit the amount of shares that may be repurchased pursuant to the Share Repurchase Program (including repurchases in the case of death or qualifying disability) as follows: (a) for repurchase requests made during the calendar quarter ending December 31, 2017, $8.0 million in aggregate repurchases and (b) for repurchase requests made in 2018 and thereafter, the lesser of (1) 5% of the weighted average number of shares of the Company's common stock outstanding during the prior calendar year, less shares repurchased during the current calendar year, or (2) the net proceeds received by the Company during the calendar quarter in which such repurchase requests were made from the sale of shares pursuant to the Company's DRP;
- The price paid for shares will be: (a) for shares repurchased in connection with a death or disability, the lesser of the price paid for the shares or the most recently published estimated value per share, which is currently $8.50 and (b) for all other shares, 90.0% of the Company's most recently published estimated value per share, which is currently $7.65; and
- In the event all repurchase requests in a given quarter could not be satisfied, the Company first repurchased shares submitted in connection with a stockholder's qualifying death or disability and thereafter repurchased shares pro rata, and the Company sought to honor any unredeemed shares in a future quarter (unless the stockholder withdrew its request).

In October 2018, the Company's board of directors approved an amended and restated Share Repurchase Program, under which the Company will only repurchase shares in connection with the death or qualifying disability of a stockholder. The amended and restated Share Repurchase Program became effective October 29, 2018.

For the year ended December 31, 2018, the Company repurchased 3.3 million shares of common stock for $25.9 million at an average price of $7.91 per share. For the year ended December 31, 2017, the Company repurchased 5.7 million shares of common stock for $52.8 million at an average price of $9.22 per share pursuant to the Share Repurchase Program.

The Company has funded repurchase requests received during a quarter with cash on hand, borrowings or other available capital. Repurchases pursuant to the Share Repurchase Program have not exceeded proceeds received from its DRP in 2018. As of December 31, 2018, the Company had a total of 12.0 million shares, or $85.0 million, based on its most recently published estimated value per share of $7.10, in unfulfilled repurchase requests. Refer to Note 16, "Subsequent Events" for additional information regarding the Share Repurchase Program.

11. Non-controlling Interests

Operating Partnership

Non-controlling interests include the aggregate limited partnership interests in the Operating Partnership held by limited partners, other than the Company. Income (loss) attributable to the non-controlling interests is based on the limited partners' ownership percentage of the Operating Partnership. Income (loss) allocated to the Operating Partnership non-controlling interests for the years ended December 31, 2018, 2017 and 2016 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 approximately $0.4 million and $0.2 million for the years ended December 31, 2018 and 2017, respectively and de minimis for the year ended December 31, 2016.

12. Fair Value

<u>Fair Value Measurement</u>

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.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following is a description of the valuation techniques used to measure fair value of assets and liabilities accounted for at fair value on a recurring basis and the general classification of these instruments pursuant to the fair value hierarchy.

Healthcare-Related Securities

Investing VIEs

As discussed in Note 6, "Healthcare-Related Securities," the Company elected the fair value option for the financial assets and liabilities of its consolidated Investing VIE. The Investing VIE was "static"; that is, no reinvestment was permitted and there was very limited active management of the underlying assets. The Company was required to determine whether the fair value of the financial assets or the fair value of the financial liabilities of the Investing VIE were more observable, but in either case, the methodology resulted in the fair value of the assets of the securitization trust being equal to the fair value of their liabilities. The Company determined that the fair value of the liabilities of the securitization trust were more observable, since market prices for the liabilities were available from a third-party pricing service or were based on quoted prices provided by dealers who make markets in similar financial instruments. The financial assets of the securitization trust were not readily marketable and their fair value measurement required information that may be limited in availability.

In determining the fair value of the securitization trust's financial liabilities, the dealers will consider contractual cash payments and yields expected by market participants. Dealers also incorporate common market pricing methods, including a spread measurement to the treasury curve or interest rate swap curve as well as underlying characteristics of the particular security including coupon, periodic and life caps, collateral type, rate reset period and seasoning or age of the security. The Company's senior housing collateralized mortgage obligations were classified as Level 2 fair values. In accordance with ASC 810, *Consolidation*, the assets of the securitization trust was an aggregate value derived from the fair value of the trust liabilities. The Company determined that the valuation of the trust assets in their entirety, including its retained interests from the securitization (eliminated in consolidation in accordance with U.S. GAAP) should be classified as Level 3 valuations.

In March 2018, the Company sold the Class B certificates of its consolidated Investing VIE and no longer presented the assets or liabilities of the entire securitization trust on its consolidated balance sheets as of December 31, 2018. The Company has presented the income and expenses of the entire securitization trust on its consolidated statements of operations for the period that the Company owned the Class B certificates in 2018.

Fair Value Hierarchy

Financial assets and liabilities recorded at fair value on a recurring basis are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. There were no assets or liabilities accounted for at fair value on a recurring basis as of December 31, 2018. The following table presents financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2017 by level within the fair value hierarchy (dollars in thousands):

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Senior housing mortgage loans held in a securitization trust, at fair value	$ —	$ —	$ 545,048	$ 545,048
Financial Liabilities				
Senior housing mortgage obligations issued by a securitization trust, at fair value	$ —	$ 512,772	$ —	$ 512,772

As of December 31, 2018, the Company had no financial assets and liabilities that were accounted for at fair value on a non-recurring basis.

The following table presents the changes in fair value of financial assets which are measured at fair value on a recurring basis using Level 3 inputs to determine fair value for the years ended December 31, 2018 and 2017 (dollars in thousands):

	Year Ended December 31,	
	2018	2017
Beginning balance	$ 545,048	$ 553,707
Purchases/contributions	—	—
Paydowns/distributions	—	(4,058)
Derecognition	(545,048)	—
Unrealized gain (loss)	—	(4,601)
Ending balance	$ —	$ 545,048

There were no financial liabilities measured at fair value on a recurring basing using Level 3 inputs during the year ended December 31, 2018. The following table presents the changes in fair value of financial liabilities which are measured at fair value on a recurring basis using Level 3 inputs to determine fair value for the years ended December 31, 2018 and 2017 (dollars in thousands):

	Year Ended December 31, 2017
Beginning balance	$ 522,933
Transfers to Level 2[(1)]	(522,933)
Paydowns/distributions	—
Sale of investment	—
Unrealized (gain) loss	—
Ending balance	$ —

(1) Transfers to Level 2 from Level 3 represent a fair value measurement from a third-party pricing service or broker quotations that have become more observable during the period. Transfers are assumed to occur at the beginning of the year.

For the year ended December 31, 2017, the key unobservable inputs used in the fair value analysis included a weighted average yield of 13.1% and a weighted average life of 9.6 years. Significant increases (decreases) in any one of the inputs described above in isolation may result in a significantly different fair value for the financial assets using such Level 3 inputs.

Fair Value Option

The Company may elect to apply the fair value option of accounting for certain of its financial assets or liabilities due to the nature of the instrument at the time of the initial recognition of the investment. In the case of its healthcare-related securities, the Company elected the fair value option because management believes it is a more useful presentation for such investments.

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 as of December 31, 2018 and 2017 (dollars in thousands):

	December 31, 2018			December 31, 2017		
	Principal Amount	Carrying Value	Fair Value	Principal Amount	Carrying Value	Fair Value
Financial assets:[(1)]						
Real estate debt investments, net	$ 75,000	$ 58,600	$ 75,000	$ 75,000	$ 74,650	$ 75,000
Financial liabilities:[(1)]						
Mortgage and other notes payable, net	$ 1,494,154	$ 1,466,349	$ 1,464,533	$ 1,520,133	$ 1,487,480	$ 1,480,407

(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

For commercial real estate ("CRE") debt investments, fair values were 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. These fair value measurements of CRE debt are generally based on unobservable inputs, and as such, are classified as Level 3 of the fair value hierarchy.

Mortgage and Other Notes Payable, Net

For mortgage and other notes payable, the Company primarily uses rates currently available with similar terms and remaining maturities to estimate fair value. These measurements are determined using comparable U.S. Treasury 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.

13. Quarterly Financial Information (Unaudited)

The following tables present selected quarterly information for the years ended December 31, 2018 and 2017 (dollars in thousands, except per share data):

	Three Months Ended			
	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Property and other revenues	$ 73,721	$ 73,470	$ 72,777	$ 74,303
Net interest income	1,943	1,943	1,921	3,224
Expenses	131,445	99,430	104,790	106,269
Equity in earnings (losses) of unconsolidated ventures	(37,424)	16,631	(4,098)	(8,626)
Net income (loss)	(77,257)	(6,670)	(34,205)	(33,888)
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	(77,212)	(6,604)	(34,094)	(33,668)
Net income (loss) per share of common stock, basic/diluted (1)	$ (0.40)	$ (0.04)	$ (0.18)	$ (0.18)

(1) The total for the year may differ from the sum of the quarters as a result of weighting.

	Three Months Ended			
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Property and other revenues	$ 76,335	$ 74,401	$ 68,594	$ 66,445
Net interest income	3,545	3,557	3,538	3,501
Expenses	121,088	104,257	87,070	91,734
Equity in earnings (losses) of unconsolidated ventures	(4,080)	(18,557)	(7,055)	(5,622)
Net income (loss)	(44,882)	(44,487)	(21,560)	(27,042)
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	(44,709)	(44,390)	(21,593)	(27,079)
Net income (loss) per share of common stock, basic/diluted (1)	$ (0.23)	$ (0.24)	$ (0.12)	$ (0.15)

(1) The total for the year may differ from the sum of the quarters as a result of weighting.

14. 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.
- *Unconsolidated Investments* - Healthcare joint ventures, including properties operated under net leases or pursuant to management agreements with healthcare operators, in which we own a minority interest.
- *Debt and Securities Investments* - Mortgage loans or mezzanine loans to owners of healthcare real estate and commercial mortgage backed securities backed primarily by loans secured by healthcare properties.

- *Corporate* - 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 net interest income on real estate debt and securities investments. The Company's healthcare-related securities represent its investment in the Class B certificates of the securitization trust which are eliminated in consolidation.

The following table presents the operators and tenants of the Company's properties, excluding properties owned through unconsolidated joint ventures as of December 31, 2018 (dollars in thousands):

				Year Ended December 31, 2018	
Operator / Tenant		**Properties Under Management**	**Units Under Management(1)**	**Property and Other Revenues**	**% of Total Property and Other Revenues**
Watermark Retirement Communities		30	5,265	$ 152,875	52.0%
Solstice Senior Living	(2)	32	4,000	105,617	35.9%
Avamere Health Services	(3)	5	453	16,735	5.7%
Arcadia Management		4	572	10,615	3.6%
Integral Senior Living	(2)	3	162	5,695	1.9%
Peregrine Senior Living		2	114	1,467	0.5%
Senior Lifestyle Corporation	(4)	1	63	51	—%
Other	(5)	—	—	1,216	0.4%
Total		77	10,629	$ 294,271	100.0%

(1) Represents rooms for ALF and ILF and beds for MCF and SNF, based on predominant type.
(2) Solstice Senior Living, LLC is a joint venture of which affiliates of Integral Senior Living own 80%.
(3) Effective February 2018, properties under the management of Bonaventure were transitioned to Avamere Health Services.
(4) As a result of the tenant failing to remit rental payments, the Company accelerated the amortization of capitalized lease inducements. Properties and unit counts exclude one property held for sale.
(5) Consists primarily of interest income earned on corporate-level cash accounts.

During the year ended December 31, 2018, the Company changed the composition of its reportable segments and has reflected the change for all prior year information presented. The following tables present segment reporting for the years ended December 31, 2018, 2017 and 2016 (dollars in thousands):

Statement of Operations:	**Direct Investments**							
Year Ended December 31, 2018	**Net Lease**	**Operating**	**Unconsolidated Investments**	**Debt and Securities**	**Corporate[1]**	**Subtotal**	**Investing VIE[2]**	**Total**
Rental and resident fee income	$ 34,275	$ 255,061	$ —	$ —	$ —	$ 289,336	$ —	$ 289,336
Net interest income on debt and securities	—	—	—	8,534	(314) [3]	8,220	811	9,031
Other revenue	1	3,718	—	375	841	4,935	—	4,935
Property operating expenses	(1,346)	(187,415)	—	—	—	(188,761)	—	(188,761)
Interest expense	(13,326)	(56,595)	—	—	(275)	(70,196)	—	(70,196)
Other expenses related to securitization trust	—	—	—	—	—	—	(811)	(811)
Transaction costs	(60)	(828)	—	—	—	(888)	—	(888)
Asset management and other fees - related party	—	—	—	—	(23,478)	(23,478)	—	(23,478)
General and administrative expenses	(183)	(856)	(2)	(46)	(13,303)	(14,390)	—	(14,390)
Depreciation and amortization	(13,694)	(93,439)	—	—	—	(107,133)	—	(107,133)
Impairment loss	(5,094)	(31,183)	—	—	—	(36,277)	—	(36,277)
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net	—	—	—	(314)	314 [3]	—	—	—
Realized gain (loss) on investments and other	—	2,525	14,086	3,495	137	20,243	—	20,243
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	573	(109,012)	14,084	12,044	(36,078)	(118,389)	—	(118,389)
Equity in earnings (losses) of unconsolidated ventures	—	—	(33,517)	—	—	(33,517)	—	(33,517)
Income tax benefit (expense)	—	(114)	—	—	—	(114)	—	(114)
Net income (loss)	$ 573	$ (109,126)	$ (19,433)	$ 12,044	$ (36,078)	$ (152,020)	$ —	$ (152,020)

(1) Includes unallocated asset management fee-related party and general and administrative expenses.
(2) Investing VIEs are not considered to be a segment that the Company conducts its business through, however U.S. GAAP requires the Company, as the primary beneficiary, to present the assets and liabilities of the securitization trust on its consolidated balance sheets and recognize the related interest income and interest expense, as net interest income on the consolidated statements of operations. Though U.S. GAAP requires this presentation, the Company views its investment in the securitization trust as a net investment in debt and securities.
(3) Represents income earned from the healthcare-related securities purchased at a discount, recognized using the effective interest method had the transaction been recorded as an available for sale security, at amortized cost. During the year ended December 31, 2018, $0.3 million was attributable to discount accretion income and was eliminated in consolidation in the corporate segment.

Statement of Operations:	**Direct Investments**							
Year Ended December 31, 2017	**Net Lease**	**Operating**	**Unconsolidated Investments**	**Debt and Securities**	**Corporate[(1)]**	**Subtotal**	**Investing VIE[(2)]**	**Total**
Rental and resident fee income	$ 34,798	$ 248,082	$ —	$ —	$ —	$ 282,880	$ —	$ 282,880
Net interest income on debt and securities	—	(1)	—	11,749	(1,529) [(3)]	10,219	3,922	14,141
Other revenue	5	2,244	—	—	646	2,895	—	2,895
Property operating expenses	(31)	(163,806)	—	—	—	(163,837)	—	(163,837)
Interest expense	(12,266)	(48,742)	—	—	(74)	(61,082)	—	(61,082)
Other expenses related to securitization trust	—	—	—	—	—	—	(3,922)	(3,922)
Transaction costs	(435)	(8,972)	—	—	—	(9,407)	—	(9,407)
Asset management and other fees - related party	—	—	—	—	(41,954)	(41,954)	—	(41,954)
General and administrative expenses	(82)	(866)	—	(49)	(12,491)	(13,488)	—	(13,488)
Depreciation and amortization	(13,127)	(92,332)	—	—	—	(105,459)	—	(105,459)
Impairment of operating real estate	(5,000)	—	—	—	—	(5,000)	—	(5,000)
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net	—	—	—	(26)	1,529 [(3)]	1,503	—	1,503
Realized gain (loss) on investments and other	—	116	—	—	—	116	—	116
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	3,862	(64,277)	—	11,674	(53,873)	(102,614)	—	(102,614)
Equity in earnings (losses) of unconsolidated ventures	—	—	(35,314)	—	—	(35,314)	—	(35,314)
Income tax benefit (expense)	—	(43)	—	—	—	(43)	—	(43)
Net income (loss)	$ 3,862	$ (64,320)	$ (35,314)	$ 11,674	$ (53,873)	$ (137,971)	$ —	$ (137,971)

(1) Includes unallocated asset management fee-related party and general and administrative expenses.
(2) Investing VIEs are not considered to be a segment that the Company conducts its business through, however U.S. GAAP requires the Company, as the primary beneficiary, to recognize the related interest income and interest expense, as net interest income on the consolidated statements of operations. Though U.S. GAAP requires this presentation, the Company views its investment in the securitization trust as a net investment in debt and securities.
(3) Represents income earned from the healthcare-related securities purchased at a discount, recognized using the effective interest method had the transaction been recorded as an available for sale security, at amortized cost. During the year ended December 31, 2017, $1.5 million was attributable to discount accretion income and was eliminated in consolidation in the corporate segment.

Statement of Operations:	Direct Investments							
Year Ended December 31, 2016	Net Lease	Operating	Unconsolidated Investments	Debt and Securities	Corporate[(1)]	Subtotal	Investing VIE[(2)]	Total
Rental and resident fee income	$ 33,974	$ 201,049	$ —	$ —	$ —	$ 235,023	$ —	$ 235,023
Net interest income on debt and securities	—	—	—	18,533	(328) [(3)]	18,205	765	18,970
Other revenue	(45)	1,511	—	—	119	1,585	—	1,585
Property operating expenses	—	(129,808)	(146)	—	—	(129,954)	—	(129,954)
Interest expense	(12,200)	(38,043)	—	—	—	(50,243)	—	(50,243)
Other expenses related to securitization trust	—	—	—	—	—	—	(765)	(765)
Transaction costs	—	(2,147)	—	(57)	—	(2,204)	—	(2,204)
Asset management and other fees - related party	—	—	—	—	(45,092)	(45,092)	—	(45,092)
General and administrative expenses	(525)	(250)	—	(84)	(23,984)	(24,843)	—	(24,843)
Depreciation and amortization	(12,202)	(69,584)	—	—	—	(81,786)	—	(81,786)
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net	—	—	—	(30)	328 [(3)]	298	—	298
Realized gain (loss) on investments and other	—	600	—	—	—	600	—	600
Gain (loss) on consolidation of unconsolidated venture	—	—	6,408	—	—	6,408	—	6,408
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	9,002	(36,672)	6,262	18,362	(68,957)	(72,003)	—	(72,003)
Equity in earnings (losses) of unconsolidated ventures	—	—	(62,175)	—	—	(62,175)	—	(62,175)
Income tax benefit (expense)	—	(7,104)	—	—	—	(7,104)	—	(7,104)
Net income (loss)	$ 9,002	$ (43,776)	$ (55,913)	$ 18,362	$ (68,957)	$ (141,282)	$ —	$ (141,282)

(1) Includes unallocated asset management fee-related party and general and administrative expenses.
(2) Investing VIEs are not considered to be a segment that the Company conducts its business through, however U.S. GAAP requires the Company, as the primary beneficiary, to recognize the related interest income and interest expense, as net interest income on the consolidated statement of operations. Though U.S. GAAP requires this presentation, the Company views its investment in the securitization trust as a net investment in debt and securities.
(3) Represents income earned from the healthcare-related securities purchased at a discount, recognized using the effective interest method had the transaction been recorded as an available for sale security, at amortized cost. During the year ended December 31, 2016, $0.3 million was attributable to discount accretion income and was eliminated in consolidation in the corporate segment.

The following table presents total assets by segment as of December 31, 2018 and 2017 (dollars in thousands):

	Direct Investments							
Total Assets:	Net Lease	Operating	Unconsolidated Investments	Debt and Securities	Corporate[(1)]	Subtotal	Investing VIEs[(2)]	Total
December 31, 2018	$ 394,697	$ 1,481,522	$ 264,317	$ 59,620	$ 64,260	$ 2,264,416	$ —	$ 2,264,416
December 31, 2017	419,846	1,594,445	325,582	107,780	3,925	2,451,578	547,175	2,998,753

(1) Represents corporate cash and cash equivalent balances. These balances are partially offset by elimination of healthcare-related securities in consolidation as of December 31, 2017.
(2) Investing VIEs are not considered to be a segment through which the Company conducts business, however U.S. GAAP requires the Company, as the primary beneficiary, to present the assets and liabilities of the securitization trust on its consolidated balance sheets. Though U.S. GAAP requires this presentation, the Company's management and chief decision makers view the Company's investment in the securitization trust as a net investment in debt and securities.

15. Commitments and Contingencies

The purchase price of an operating real estate portfolio acquired in November 2017 includes $1.8 million in contingent consideration, which is payable dependent upon the future operating performance of the portfolio. The purchase price contingency was included in the asset allocation of the purchase price during the year ended December 31, 2017 and is included in other liabilities on the Company's consolidated balance sheets as of December 31, 2017.

During the year ended December 31, 2018, the Company concluded that the payment of the contingent consideration would not be required, based on operating performance of the portfolio. The Company relieved the liability in full and recorded a gain on the contingent consideration in realized gain (loss) on investments and other on the Company's consolidated statement of operations for the year ended December 31, 2018.

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.

16. Subsequent Events

Distribution Reinvestment Plan

For the period from January 1, 2019 through January 31, 2019, the Company issued 0.7 million shares pursuant to the DRP, representing gross proceeds of $4.9 million.

Share Repurchases

For the period from January 1, 2019 through March 21, 2019, the Company repurchased 0.3 million shares for a total of $2.0 million or a price of $7.10 per share under the Share Repurchase Program. Prior to the most recent amendments to the Share Repurchase program, the Company had a total of 12.0 million shares, or $85.0 million, based on its most recently published estimated value per share of $7.10, in unfulfilled repurchase requests. Refer to Note 10, "Stockholders' Equity" for additional information regarding the Share Repurchase Program.

Distributions

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

Dispositions

Envoy

In March 2019, the Envoy joint venture, of which the Company owns 11.4%, completed the sale of the remaining 11 properties in the portfolio, for a sales price of $118.0 million.

Peregrine

In March 2019, the Company executed a purchase and sale agreement totaling $19.7 million for two properties within the Peregrine portfolio.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2018

(Dollars in Thousands)

Column A	Column B	Column C Initial Cost		Column D Capitalized Subsequent to Acquisition[1]	Column E Gross Amount Carried at Close of Period[2]			Column F		Column G	Column H
Location City, State	Encumbrances	Land	Building & Improvements	Land, Buildings & Improvements	Land	Building & Improvements	Total	Accumulated Depreciation	Total	Date Acquired	Life on Which Depreciation is Computed
Net Lease Portfolio											
Skaneateles, NY	$ 1,950	$ 400	$ 2,600	$ —	$ 400	$ 2,600	$ 3,000	$ 356	$ 2,644	Oct-13	40 years
Smyrna, GA	6,559	825	9,175	(2,132)	825	7,043	7,868	1,272	6,596	Dec-13	40 years
Cheektowaga, NY	8,036	300	12,200	113	300	12,313	12,613	1,642	10,971	Feb-14	40 years
Bohemia, NY	24,148	4,258	27,805	160	4,258	27,965	32,223	3,443	28,780	Sep-14	40 years
Hauppauge, NY	14,651	2,086	18,495	1,351	2,086	19,846	21,932	2,556	19,376	Sep-14	40 years
Islandia, NY	36,001	8,437	37,198	218	8,437	37,416	45,853	4,691	41,162	Sep-14	40 years
Westbury, NY	15,951	2,506	19,163	174	2,506	19,337	21,843	2,344	19,499	Sep-14	40 years
Bellevue, WA	30,767	13,801	18,208	3,223	13,801	21,431	35,232	2,775	32,457	Jun-15	40 years
Dana Point, CA	32,616	6,286	41,199	465	6,286	41,664	47,950	4,273	43,677	Jun-15	40 years
Kalamazoo, MI	34,651	4,521	30,870	2,444	4,521	33,314	37,835	4,028	33,807	Jun-15	40 years
Oklahoma City, OK	2,987	3,104	6,119	1,185	3,104	7,304	10,408	1,522	8,886	Jun-15	40 years
Palm Desert, CA	20,532	5,365	38,889	2,092	5,365	40,981	46,346	4,768	41,578	Jun-15	40 years
Sarasota, FL	74,269	12,845	64,403	3,447	12,845	67,850	80,695	7,552	73,143	Jun-15	40 years
Senior Housing Operating Portfolio											
Leawood, KS	—	900	7,100	(1,843)	900	5,257	6,157	1,106	5,051	Oct-13	40 years
Spring Hill, KS	—	430	6,570	(1,427)	430	5,143	5,573	953	4,620	Oct-13	40 years
Milford, OH	18,760	1,160	14,440	1,472	1,160	15,912	17,072	2,662	14,410	Dec-13	40 years
Milford, OH	—	700	—	5,572	696	5,576	6,272	27	6,245	Jul-17	40 years
Denver, CO	20,866	4,300	27,200	9,042	4,300	36,242	40,542	4,941	35,601	Jan-14	40 years
Frisco, TX	19,460	3,100	35,874	1,863	3,100	37,737	40,837	5,073	35,764	Feb-14	40 years
Alexandria, VA	45,037	7,950	41,124	2,014	7,950	43,138	51,088	4,594	46,494	Jun-15	40 years
Crystal Lake, IL	27,511	6,580	28,210	2,089	6,580	30,299	36,879	3,315	33,564	Jun-15	40 years
Independence, MO	15,533	1,280	17,090	1,244	1,280	18,334	19,614	2,197	17,417	Jun-15	40 years
Millbrook, NY	24,719	6,610	20,854	3,385	6,610	24,239	30,849	3,039	27,810	Jun-15	40 years
St. Petersburg, FL	40,579	8,920	44,137	5,204	8,920	49,341	58,261	5,418	52,843	Jun-15	40 years
Tarboro, NC	22,487	2,400	17,800	3,523	2,400	21,323	23,723	2,459	21,264	Jun-15	40 years
Tuckahoe, NY	36,785	4,870	26,980	1,009	4,870	27,989	32,859	2,943	29,916	Jun-15	40 years
Tucson, AZ	65,951	7,370	60,719	3,954	7,370	64,673	72,043	7,063	64,980	Jun-15	40 years
Apple Valley, CA	21,673	1,168	24,625	473	1,168	25,098	26,266	2,344	23,922	Mar-16	40 years
Auburn, CA	24,485	1,694	18,438	785	1,694	19,223	20,917	1,897	19,020	Mar-16	40 years
Austin, TX	26,960	4,020	19,417	814	4,020	20,231	24,251	1,971	22,280	Mar-16	40 years
Bakersfield, CA	17,109	1,831	21,006	631	1,831	21,637	23,468	2,090	21,378	Mar-16	40 years
Bangor, ME	21,820	2,463	23,205	668	2,463	23,873	26,336	2,339	23,997	Mar-16	40 years
Bellingham, WA	24,228	2,242	18,807	761	2,242	19,568	21,810	1,951	19,859	Mar-16	40 years
Clovis, CA	19,067	1,821	21,721	371	1,821	22,092	23,913	2,077	21,836	Mar-16	40 years
Columbia, MO	23,069	1,621	23,521	422	1,621	23,943	25,564	2,253	23,311	Mar-16	40 years
Corpus Christi, TX	18,903	2,263	20,142	793	2,263	20,935	23,198	2,021	21,177	Mar-16	40 years
East Amherst, NY	18,829	2,873	18,279	449	2,873	18,728	21,601	1,779	19,822	Mar-16	40 years
El Cajon, CA	21,330	2,357	14,733	579	2,357	15,312	17,669	1,595	16,074	Mar-16	40 years
El Paso, TX	12,409	1,610	14,103	707	1,610	14,810	16,420	1,424	14,996	Mar-16	40 years
Fairport, NY	16,791	1,452	19,427	299	1,452	19,726	21,178	1,859	19,319	Mar-16	40 years
Fenton, MO	24,951	2,410	22,216	660	2,410	22,876	25,286	2,187	23,099	Mar-16	40 years
Grand Junction, CO	19,803	2,525	26,446	406	2,525	26,852	29,377	2,589	26,788	Mar-16	40 years
Grand Junction, CO	10,147	1,147	12,523	485	1,147	13,008	14,155	1,369	12,786	Mar-16	40 years
Grapevine, TX	22,697	1,852	18,143	914	1,852	19,057	20,909	1,864	19,045	Mar-16	40 years
Groton, CT	17,883	3,673	21,879	692	3,673	22,571	26,244	2,397	23,847	Mar-16	40 years
Guilford, CT	24,693	6,725	27,488	(14,598)	6,725	12,890	19,615	2,991	16,624	Mar-16	40 years
Joliet, IL	15,154	1,473	23,427	(7,544)	1,473	15,883	17,356	2,292	15,064	Mar-16	40 years
Kennewick, WA	7,801	1,168	18,933	373	1,168	19,306	20,474	1,837	18,637	Mar-16	40 years
Las Cruces, NM	11,368	1,568	15,091	655	1,568	15,746	17,314	1,498	15,816	Mar-16	40 years
Lees Summit, MO	27,629	1,263	20,500	806	1,263	21,306	22,569	2,147	20,422	Mar-16	40 years
Lodi, CA	20,438	2,863	21,152	509	2,863	21,661	24,524	2,067	22,457	Mar-16	40 years
Normandy Park, WA	16,493	2,031	16,407	825	2,031	17,232	19,263	1,672	17,591	Mar-16	40 years

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2018

(Dollars in Thousands)

Column A	Column B	Column C Initial Cost		Column D Capitalized Subsequent to Acquisition[1]	Column E Gross Amount Carried at Close of Period[2]			Column F		Column G	Column H
Location City, State	Encumbrances	Land	Building & Improvements	Land, Buildings & Improvements	Land	Building & Improvements	Total	Accumulated Depreciation	Total	Date Acquired	Life on Which Depreciation is Computed
Palatine, IL	20,437	1,221	26,993	717	1,221	27,710	28,931	2,690	26,241	Mar-16	40 years
Plano, TX	16,351	2,200	14,860	1,181	2,200	16,041	18,241	1,533	16,708	Mar-16	40 years
Renton, WA	19,355	2,642	20,469	758	2,642	21,227	23,869	2,072	21,797	Mar-16	40 years
Sandy, UT	16,054	2,810	19,132	289	2,810	19,421	22,231	1,829	20,402	Mar-16	40 years
Santa Rosa, CA	28,398	5,409	26,183	519	5,409	26,702	32,111	2,630	29,481	Mar-16	40 years
Sun City West, AZ	26,093	2,684	29,056	1,339	2,684	30,395	33,079	3,147	29,932	Mar-16	40 years
Tacoma, WA	30,536	7,974	32,435	835	7,974	33,270	41,244	3,319	37,925	Mar-16	40 years
Frisco, TX	—	1,130	—	12,595	1,130	12,595	13,725	851	12,874	Oct-16	40 years
Albany, OR	8,900	958	6,625	394	758	7,219	7,977	457	7,520	Feb-17	40 years
Port Townsend, WA	17,016	1,613	21,460	561	996	22,638	23,634	1,378	22,256	Feb-17	40 years
Roseburg, OR	12,590	699	11,589	509	459	12,338	12,797	719	12,078	Feb-17	40 years
Sandy, OR	14,360	1,611	16,697	376	1,233	17,451	18,684	1,013	17,671	Feb-17	40 years
Santa Barbara, CA	3,500	2,408	15,674	34	2,408	15,708	18,116	788	17,328	Feb-17	40 years
Wenatchee, WA	19,600	2,540	28,971	630	1,534	30,607	32,141	1,641	30,500	Feb-17	40 years
Churchville, NY	6,575	296	7,712	333	296	8,045	8,341	439	7,902	Aug-17	40 years
Greece, NY	—	534	18,158	290	534	18,448	18,982	719	18,263	Aug-17	40 years
Greece, NY	26,833	1,007	31,960	630	1,007	32,590	33,597	1,462	32,135	Aug-17	40 years
Henrietta, NY	11,881	1,153	16,812	664	1,153	17,476	18,629	1,006	17,623	Aug-17	40 years
Penfield, NY	12,502	781	20,273	913	781	21,186	21,967	1,259	20,708	Aug-17	40 years
Penfield, NY	10,918	516	9,898	183	516	10,081	10,597	560	10,037	Aug-17	40 years
Rochester, NY	20,849	2,426	31,861	1,054	2,426	32,915	35,341	1,497	33,844	Aug-17	40 years
Rochester, NY	5,341	297	12,484	962	297	13,446	13,743	649	13,094	Aug-17	40 years
Victor, NY	27,174	1,060	33,246	1,096	1,060	34,342	35,402	1,473	33,929	Aug-17	40 years
Victor, NY	12,355	557	13,570	9	557	13,579	14,136	430	13,706	Nov-17	40 years
Undeveloped Land											
Bellevue, WA	—	14,200	—	—	14,200	—	14,200	—	14,200	Jun-15	40 years
Kalamazoo, MI	—	100	—	—	100	—	100	—	100	Jun-15	40 years
Crystal Lake, IL	—	810	—	—	810	—	810	—	810	Jun-15	40 years
Millbrook, NY	—	1,050	—	—	1,050	—	1,050	—	1,050	Jun-15	40 years
Rochester, NY	—	544	—	—	544	—	544	—	544	Aug-17	40 years
Penfield, NY	—	534	—	—	534	—	534	—	534	Aug-17	40 years
Subtotal	$ 1,494,154	$239,181	$ 1,642,169	$ 68,647	$ 236,736	$ 1,713,261	$1,949,997	$ 171,083	$ 1,778,914		
Held for Sale											
Clinton, CT	—	—	—	—	—	—	2,183	—	2,183	Oct-13	40 years
Total	$ 1,494,154	$239,181	$ 1,642,169	$ 68,647	$ 236,736	$ 1,713,261	$1,952,180	$ 171,083	$ 1,781,097		

(1) Negative amount represents impairment of operating real estate.
(2) The aggregate cost for federal income tax purposes is approximately $2.2 billion.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2018

(Dollars in Thousands)

The following table presents changes in the Company's operating real estate portfolio for the years ended December 31, 2018, 2017 and 2016 (dollars in thousands):

	Year Ended December 31,		
	2018	2017	2016
Balance at beginning of year	$ 1,966,352	$ 1,632,153	$ 851,639
Property acquisitions	—	317,224	751,086
Property dispositions	(15,240)	—	—
Improvements	35,889	21,251	29,428
Impairment	(33,494)	(5,000)	—
Reclassification(1)	—	724	—
Balance at end of year, including held for sale	1,953,507	1,966,352	1,632,153
Classified as held for sale(2)	(3,510)	—	—
Balance at end of year(3)	$ 1,949,997	$ 1,966,352	$ 1,632,153

(1) Represents a measurement period adjustment of operating real estate acquired in 2016 reclassified from below market debt in connection with the final purchase price allocation for the Winterfell portfolio.
(2) Amounts classified as held for sale during the year and remain as held for sale at the end of the year.
(3) The aggregate cost of the properties are approximately $40.6 million higher for federal income tax purposes as of December 31, 2018.

The following table presents changes in accumulated depreciation as of December 31, 2018, 2017 and 2016 (dollars in thousands):

	Year Ended December 31,		
	2018	2017	2016
Balance at beginning of year	$ 113,924	$ 60,173	$ 19,386
Depreciation expense	60,028	53,751	40,787
Property dispositions	(1,542)	—	—
Balance at end of year, including held for sale	172,410	113,924	60,173
Classified as held for sale	(1,327)	—	—
Balance at end of year	$ 171,083	$ 113,924	$ 60,173

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE

December 31, 2018

(Dollars in Thousands)

Asset Type:	Location / Description	Count	Fixed Rate	Maturity Date(1)	Periodic Payment Terms(2)	Prior Liens(3)	Principal Amount	Carrying Value(4)	Principal Amount of Loans Subject to Delinquent Principal or Interest
Espresso Mezzanine Loan	Various / SNF / ALF	1	10.0%	Jan-21	I/O	$ 721,877	$ 75,000	$ 58,600	—

(1) Reflects the initial maturity date of the investment and does not consider any options to extend beyond such date.
(2) Interest Only, or I/O; principal amount due in full at maturity.
(3) Represents only third-party liens.
(4) The federal income tax basis is approximately $75.0 million.

Reconciliation of Carrying Value of Real Estate Debt (dollars in thousands):

	Year Ended December 31,		
	2018	2017	2016
Balance at beginning of year	$ 74,650	$ 74,558	$ 192,934
Additions:			
Principal amount of new loans and additional funding on existing loans	—	—	—
Acquisition cost (fees) on new loans	—	—	—
Origination fees received on new loans	—	—	—
Deductions:			
Reclassification (1)	(16,151)	—	—
Repayment of principal	—	—	(118,411)
Amortization of acquisition costs, fees, premiums and discounts	101	92	35
Balance at end of year	$ 58,600	$ 74,650	$ 74,558

(1) As a result of impairments and other non-cash reserves recorded by the joint venture, the Company's carrying value of its Espresso unconsolidated investment was reduced to zero as of December 31, 2018. The Company has recorded the excess equity in losses related to its unconsolidated venture as a reduction to the carrying value of its mezzanine loan, which was originated to a subsidiary of the Espresso joint venture.

Corporate Directory

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