UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

Commission File Number: 000-55190

NORTHSTAR HEALTHCARE INCOME, INC.

(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

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

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

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

Emerging growth company ☐

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

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

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

The Company has one class of common stock, $0.01 par value per share, 188,017,022 shares outstanding as of November 8, 2018.

NORTHSTAR HEALTHCARE INCOME, INC.

FORM 10-Q

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FORWARD-LOOKING STATEMENTS

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

- 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, managers and borrowers and our ability and the ability of our tenants, operators, managers and borrowers 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, operators and borrowers, 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 borrowers' loans 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 our sponsor's merger with NorthStar Realty Finance Corp. and Colony Capital, Inc.;
- 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;
- any failure in our advisor's and its affiliates' due diligence to identify relevant facts during our underwriting process or otherwise;
- 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;
- any failure in our advisor's and its affiliates' due diligence to identify relevant facts during our underwriting process or otherwise;
- 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, 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 Quarterly Report on Form 10-Q are based on information available to us on the date hereof and we are under no duty to update any of the forward-looking statements after the date of this report to conform these statements to actual results.

Factors that could have a material adverse effect on our operations and future prospects are set forth in our filings with the United States Securities and Exchange Commission, or the SEC, including Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and in Part II, Item 1A of this Quarterly Report on Form 10-Q under the heading "Risk Factors." The risk factors set forth in our filings with the SEC could cause our actual results to differ significantly from those contained in any forward-looking statement contained in this report.

PART I. Financial Information

Item 1. Financial Statements

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Per Share Data)

	September 30, 2018 (Unaudited)	December 31, 2017
Assets		
Cash and cash equivalents	$ 37,983	$ 50,046
Restricted cash	25,515	30,442
Operating real estate, net	1,814,849	1,852,428
Investments in unconsolidated ventures	322,538	325,582
Real estate debt investments, net	74,725	74,650
Senior housing mortgage loans held in a securitization trust, at fair value	—	545,048
Receivables, net	14,275	18,363
Deferred costs and intangible assets, net	47,003	84,720
Other assets	13,186	17,474
Total assets[(1)]	$ 2,350,074	$ 2,998,753
Liabilities		
Mortgage and other notes payable, net	$ 1,470,646	$ 1,487,480
Senior housing mortgage obligations issued by a securitization trust, at fair value	—	512,772
Due to related party	2,491	1,046
Escrow deposits payable	5,416	3,817
Distribution payable	5,197	10,704
Accounts payable and accrued expenses	27,920	33,478
Other liabilities	6,988	4,657
Total liabilities[(1)]	1,518,658	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 September 30, 2018 and December 31, 2017	—	—
Common stock, $0.01 par value, 400,000,000 shares authorized, 187,683,452 and 186,709,303 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	1,877	1,867
Additional paid-in capital	1,691,198	1,681,040
Retained earnings (accumulated deficit)	(865,707)	(744,090)
Accumulated other comprehensive income (loss)	(1,717)	(316)
Total NorthStar Healthcare Income, Inc. stockholders' equity	825,651	938,501
Non-controlling interests	5,765	6,298
Total equity	831,416	944,799
Total liabilities and equity	$ 2,350,074	$ 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 September 30, 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)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Property and other revenues				
Resident fee income	$ 32,469	$ 33,233	$ 98,232	$ 93,060
Rental income	39,986	40,507	119,626	114,189
Other revenue	1,015	661	2,692	2,191
Total property and other revenues	73,470	74,401	220,550	209,440
Net interest income				
Interest income on debt investments	1,943	1,940	5,763	5,755
Interest income on mortgage loans held in a securitized trust	—	6,536	5,149	19,503
Interest expense on mortgage obligations issued by a securitization trust	—	(4,919)	(3,824)	(14,662)
Net interest income	1,943	3,557	7,088	10,596
Expenses				
Real estate properties - operating expenses	47,355	42,981	141,510	118,526
Interest expense	17,677	15,687	52,408	44,479
Other expenses related to securitization trust	—	981	811	2,947
Transaction costs	—	3,814	806	6,778
Asset management and other fees - related party	5,951	13,299	17,845	32,716
General and administrative expenses	2,818	3,041	9,927	8,392
Depreciation and amortization	25,629	24,454	81,943	69,223
Impairment loss	—	—	5,239	—
Total expenses	99,430	104,257	310,489	283,061
Other income (loss)				
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net	—	384	—	1,108
Realized gain (loss) on investments and other	726	—	4,221	118
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	(23,291)	(25,915)	(78,630)	(61,799)
Equity in earnings (losses) of unconsolidated ventures	16,631	(18,557)	3,907	(31,234)
Income tax benefit (expense)	(10)	(15)	(40)	(56)
Net income (loss)	(6,670)	(44,487)	(74,763)	(93,089)
Net (income) loss attributable to non-controlling interests	66	97	397	27
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (6,604)	$ (44,390)	$ (74,366)	$ (93,062)
Net income (loss) per share of common stock, basic/diluted	$ (0.04)	$ (0.24)	$ (0.40)	$ (0.50)
Weighted average number of shares of common stock outstanding, basic/diluted	187,432,091	186,825,812	187,278,444	186,293,783
Distributions declared per share of common stock	0.09	0.17	0.25	0.51

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in Thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	$ (6,670)	$ (44,487)	$ (74,763)	$ (93,089)
Other comprehensive income (loss)				
Foreign currency translation adjustments related to investment in unconsolidated venture	(515)	605	(1,401)	2,185
Total other comprehensive income (loss)	(515)	605	(1,401)	2,185
Comprehensive income (loss)	(7,185)	(43,882)	(76,164)	(90,904)
Comprehensive (income) loss attributable to non-controlling interests	66	97	397	27
Comprehensive income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (7,119)	$ (43,785)	$ (75,767)	$ (90,877)

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, 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	—	146	—	—	146	—	146
Non-controlling interests - contributions	—	—	—	—	—	—	2,952	2,952
Non-controlling interests - distributions	—	—	—	—	—	—	(230)	(230)
Shares redeemed for cash	(3,700)	(37)	(34,081)	—	—	(34,118)	—	(34,118)
Distributions declared	—	—	—	(94,030)	—	(94,030)	—	(94,030)
Proceeds from distribution reinvestment plan	5,559	56	50,537	—	—	50,593	—	50,593
Other comprehensive income (loss)	—	—	—	—	2,185	2,185	—	2,185
Net income (loss)	—	—	—	(93,062)	—	(93,062)	(27)	(93,089)
Balance as of September 30, 2017 (Unaudited)	186,914	$ 1,869	$ 1,683,081	$ (667,608)	$ 997	$ 1,018,339	$ 8,044	$ 1,026,383

	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, 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	882	9	7,491	—	—	7,500	—	7,500
Issuance and amortization of equity-based compensation	21	—	129	—	—	129	—	129
Non-controlling interests - contributions	—	—	—	—	—	—	395	395
Non-controlling interests - distributions	—	—	—	—	—	—	(531)	(531)
Shares redeemed for cash	(3,028)	(30)	(23,773)	—	—	(23,803)	—	(23,803)
Distributions declared	—	—	—	(47,251)	—	(47,251)	—	(47,251)
Proceeds from distribution reinvestment plan	3,099	31	26,311	—	—	26,342	—	26,342
Other comprehensive income (loss)	—	—	—	—	(1,401)	(1,401)	—	(1,401)
Net income (loss)	—	—	—	(74,366)	—	(74,366)	(397)	(74,763)
Balance as of September 30, 2018 (Unaudited)	187,683	$ 1,877	$ 1,691,198	$ (865,707)	$ (1,717)	$ 825,651	$ 5,765	$ 831,416

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2018	**2017**
Cash flows from operating activities:		
Net income (loss)	$ (74,763)	$ (93,089)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Equity in (earnings) losses of unconsolidated ventures	(3,907)	31,234
Depreciation and amortization	81,943	69,223
Impairment loss	5,239	—
Amortization of below market debt	2,190	1,988
Straight-line rental income, net and amortization of lease inducements	628	(1,287)
Amortization of premium/accretion of discount on investments	(75)	(68)
Amortization of deferred financing costs	1,439	1,220
Amortization of equity-based compensation	129	146
Realized (gain) loss on investments and other	(4,221)	(118)
Unrealized (gain) loss on senior housing mortgage loans and debt held in securitization trust, net	—	(1,108)
Allowance for uncollectible accounts	2,105	943
Distributions of cumulative earnings from unconsolidated ventures	—	427
Changes in assets and liabilities:		
Receivables	2,257	(3,623)
Other assets	1,918	(1,993)
Due to related party	8,945	5,187
Escrow deposits payable	1,599	1,252
Accounts payable and accrued expenses	(5,691)	5,474
Other liabilities	265	(366)
Net cash provided by (used in) operating activities	20,000	15,442
Cash flows from investing activities:		
Acquisition of operating real estate investments	—	(297,955)
Improvement of operating real estate investments	(20,003)	(13,463)
Sale of operating real estate investment	11,784	—
Sale of healthcare-related securities	35,771	—
Investment in unconsolidated ventures	(4,470)	(9,099)
Distributions in excess of cumulative earnings from unconsolidated ventures	10,020	11,206
Other assets	1,589	3,288
Net cash provided by (used in) investing activities	34,691	(306,023)
Cash flows from financing activities:		
Borrowing from mortgage notes	—	173,690
Repayment of mortgage notes	(20,492)	(1,834)
Payment of deferred financing costs	(284)	(2,111)
Debt extinguishment costs	(97)	—
Shares redeemed for cash	(23,803)	(34,118)
Payments under capital leases	(453)	—
Distributions paid on common stock	(52,758)	(94,238)
Proceeds from distribution reinvestment plan	26,342	50,593
Contributions from non-controlling interests	395	2,952
Distributions to non-controlling interests	(531)	(230)
Net cash provided by (used in) financing activities	(71,681)	94,704
Net increase (decrease) in cash, cash equivalents and restricted cash	(16,990)	(195,877)
Cash, cash equivalents and restricted cash-beginning of period	80,488	251,892
Cash, cash equivalents and restricted cash-end of period	$ 63,498	$ 56,015

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Dollars in Thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Supplemental disclosure of non-cash investing and financing activities:		
Accrued distribution payable	$ 5,197	$ 10,371
Accrued capital expenditures	461	—
Reclassification of assets held for sale	—	—
Issuance of common stock as payment for asset management fees	7,500	—
Deconsolidation of securitization trust (VIE asset/liability)	512,772	—
Assumption of mortgage notes payable upon acquisitions of operating real estate	—	21,685
Acquisition of operating real estate under capital lease obligations	2,108	—
Change in carrying value of securitization trust (VIE asset/liability)	—	2,728
Debt financing provided by seller for investment acquisition	—	3,500

Refer to accompanying notes to consolidated financial statements.

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

1. Business and Organization

NorthStar Healthcare Income, Inc. (the "Company") was formed to acquire, originate and asset manage a diversified portfolio of equity, debt and securities investments in healthcare real estate, directly or through joint ventures, with a focus on the mid-acuity senior housing sector, which the Company defines as assisted living ("ALF"), memory care ("MCF"), skilled nursing ("SNF"), independent living ("ILF") facilities and continuing care retirement communities ("CCRC"), which may have independent living, assisted living, skilled nursing and memory care available on one campus. The Company also invests in other healthcare property types, including medical office buildings ("MOB"), hospitals, rehabilitation facilities and ancillary healthcare services businesses. The Company's investments are predominantly in the United States, but it also selectively makes international investments.

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

Substantially all of the Company's business is conducted through NorthStar Healthcare Income Operating Partnership, LP (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. The limited partners of the Operating Partnership are NorthStar Healthcare Income Advisor, LLC (the "Prior Advisor") and NorthStar Healthcare Income OP Holdings, LLC (the "Special Unit Holder"), each an affiliate of the Company's sponsor. The Prior Advisor invested $1,000 in the Operating Partnership in exchange for common units and the Special Unit Holder invested $1,000 in the Operating Partnership and was issued a separate class of limited partnership units (the "Special Units"), which are collectively recorded as non-controlling interests on the accompanying consolidated balance sheets as of September 30, 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 September 30, 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 November 8, 2018, the Company raised total gross proceeds of $2.0 billion, including $225.3 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 Quarterly Presentation

The accompanying unaudited consolidated financial statements and related notes of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and note disclosures normally included in the consolidated financial statements prepared under U.S. GAAP have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, which was filed with the SEC on April 2, 2018.

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 September 30, 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. The Company identified several VIEs which were originally consolidated under the voting interest model prior to changes in the consolidation rules under U.S. GAAP.

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 September 30, 2018 is $615.9 million related to such consolidated VIEs. Included in mortgage and other notes payable, net on the Company's consolidated balance sheet as of September 30, 2018 is $468.4 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 consolidator 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 impact the economic performance of the securitization trust. The Company's Class B certificates, which represented the retained interest and related interest income were eliminated in consolidation. In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810, *Consolidation*, 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 a result, although the Company legally owned the Class B certificates only, U.S. GAAP required the Company to present the assets, liabilities, income and expenses of the entire securitization trust on its consolidated financial statements. 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 is recorded separately on the consolidated statements of operations. The Company separately presented the assets and liabilities of its consolidated Investing VIE 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 its 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 September 30, 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 September 30, 2018, the Company identified unconsolidated VIEs related to its real estate equity investments with a carrying value of $322.5 million. The Company's maximum exposure to loss as of September 30, 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 September 30, 2018. The Company did not provide financial support to its unconsolidated VIEs during the nine months ended September 30, 2018, except for funding its proportionate share of capital call contributions. As of September 30, 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 consolidates 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):

	September 30, 2018 (Unaudited)	December 31, 2017
Cash and cash equivalents	$ 37,983	$ 50,046
Restricted cash	25,515	30,442
Total cash, cash equivalents and restricted cash	$ 63,498	$ 80,488

Operating Real Estate

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. 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. 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. The Company evaluates whether a real estate acquisition constitutes a business and whether business combination accounting is appropriate.

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 $2.9 million which is included 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 September 30, 2018, which is included in other liabilities on the Company's consolidated balance sheets (dollars in thousands):

October 1 to December 31, 2018	$	164
Years Ending December 31:		
2019		588
2020		549
2021		510
2022		418
Thereafter		25
Total minimum lease payments	$	2,254
Less: Amount representing interest	$	(188)
Present value of minimum lease payments	$	2,066

The weighted average interest rate related to the lease obligations is 5.4% 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. No operating real estate was classified as held for sale on the Company's consolidated balance sheets as of September 30, 2018 and 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 are carried at amortized cost less a reserve, if deemed appropriate, which would approximate fair value. 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 nine months ended September 30, 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 partial 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 September 30, 2018 and December 31, 2017 (dollars in thousands):

	September 30, 2018 (Unaudited)	December 31, 2017
Deferred costs and intangible assets, net:		
In-place lease value, net	$ 24,489	$ 61,593
Goodwill	21,387	22,112
Other intangible assets	380	380
Subtotal intangible assets	46,256	84,085
Deferred costs, net	747	635
Total	$ 47,003	$ 84,720

The Company recorded $10.7 million and $37.3 million of in-place lease and deferred cost amortization expense for the three and nine months ended September 30, 2018, respectively. The Company recorded $9.9 million and $30.0 million of in-place lease and deferred cost amortization expense for the three and nine months ended September 30, 2017, respectively.

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

October 1 to December 31, 2018	$ 9,999
Years Ending December 31:	
2019	8,428
2020	2,093
2021	1,871
2022	593
Thereafter	2,252
Total	$ 25,236

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. In December 2017, the Company's advisory agreement was amended and effective January 1, 2018, the Advisor no longer receives an acquisition fee in connection with the Company's acquisitions of real estate properties or debt investments. For the nine months ended September 30, 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 September 30, 2018 and December 31, 2017 (dollars in thousands):

	September 30, 2018 (Unaudited)	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	2,767	3,352
Lease inducements, net	—	1,691
Utility deposits	356	503
Construction deposit	—	993
Other	1,038	1,231
Total	$ 13,186	$ 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.

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.

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.

During the nine months ended September 30, 2018, the Company recognized impairment of $4.5 million on consolidated operating real estate, excluding impairment of goodwill. The impairment recognized during the nine months ended September 30, 2018 includes $2.1 million related to the sale of a consolidated operating property, which reduced the carrying value of the property to its estimated fair value, as well as $2.4 million for a consolidated net lease property, as a result of continuing deteriorating operating results of the tenant. As of December 31, 2017, the Company had recognized an impairment of $5.0 million related to the same consolidated net lease property.

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 September 30, 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 September 30, 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.

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 September 30, 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 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 September 30, 2018 totaled $10.3 million and continues to have a full valuation allowance recognized, as there are no changes in the facts and circumstances to indicate that the Company should release the valuation allowance.

The Company recorded an income tax expense of approximately $10,000 and $40,000 for the three and nine months ended September 30, 2018, respectively. The Company recorded an income tax expense of approximately $15,000 and $56,000 for the three and nine months ended September 30, 2017, 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):

	Nine Months Ended September 30, 2017	
Cash flow provided by (used in):	**As Previously Reported**	**After Adoption of ASU 2016-18**
Operating activities	$ 11,708	$ 15,442
Investing activities	(305,331)	(306,023)
Financing activities	97,916	94,704

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 nine months ended September 30, 2018.

Pending Adoption

Leases—In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The update will require that lessees and lessors capitalize, as initial direct costs, only those costs that are incurred due to the execution of a lease. The new guidance is to be applied using a modified retrospective approach at the beginning of the earliest comparative period in the financial statements and is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

The Company expects to adopt the package of practical expedients under the guidance and the Company will not need to reassess whether any expired or expiring contracts contain leases; will not need to revisit lease classification for any expired or expiring leases; and will not need to reassess initial direct costs for any existing leases. In addition, the Company expects to adopt the practical expedient which allows lessors to consider lease and non-lease components as a single performance obligation to the extent that the timing and pattern of transfer is the same and the lease is classified an operating lease. The Company continues to assess the potential effect the adoption of this guidance will have on its consolidated financial statements and related disclosures.

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 September 30, 2018 and December 31, 2017 (dollars in thousands):

	September 30, 2018 (Unaudited)	December 31, 2017
Land	$ 237,340	$ 239,580
Land improvements	22,190	21,908
Buildings and improvements	1,598,894	1,608,180
Tenant improvements	11,284	8,291
Construction in progress	13,754	5,376
Furniture, fixtures and equipment	88,552	83,017
Subtotal	1,972,014	1,966,352
Less: Accumulated depreciation	(157,165)	(113,924)
Operating real estate, net	$ 1,814,849	$ 1,852,428

Within the table above, buildings and improvements includes impairment totaling $7.4 million and $5.0 million as of September 30, 2018 and December 31, 2017, respectively, related to one of the Company's consolidated net lease properties. Impairment recorded for the three and nine months ended September 30, 2018 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.

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 September 30, 2018 and December 31, 2017 and activity for the three and nine months ended September 30, 2018 and 2017 (dollars in thousands):

						Properties as of September 30, 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	Formation Capital, LLC/ Safanad Management Limited	Sep-2014	11.4%	145,000	5,000	—	—	11	—	11
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, Inc./ Management Team of Trilogy Investors, LLC	Dec-2015	29.0%	1,162,613	233,290	9	—	70	—	79
Subtotal				6,464,160	522,979	151	108	304	14	577
Operator Platform[4]		Jul-2017	20.0%	2	2	—	—	—	—	—
Total				$6,464,162	$ 522,981	151	108	304	14	577

(1) Excludes six properties sold during the nine months ended September 30, 2018 and one property designated as held for sale as of September 30, 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.

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(3) Represents initial and subsequent contributions to the underlying joint venture through September 30, 2018. During the nine months ended September 30, 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.

(4) 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%.

	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017			Carrying Value	
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	September 30, 2018 (Unaudited)[2]	December 31, 2017[2]
Eclipse	$ (69)	$ (462)	$ 176	$ (776)	$ (1,229)	$ 581	$ 12,533	$ 13,143
Envoy	339	64	283	247	(1)	248	4,725	5,037
Griffin - American	(1,805)	(4,688)	1,771	(1,261)	(4,553)	1,216	124,933	134,219
Espresso	17,886 [3]	15,982	—	(16,609) [4]	(19,964)	—	11,639	5,308
Trilogy	239	(3,659)	1,450	(158)	(4,900)	—	168,635	167,845
Subtotal	16,590	7,237	3,680	(18,557)	(30,647)	2,045	322,465	325,552
Operator Platform[5]	41	—	15	—	—	—	73	30
Total	$ 16,631	$ 7,237	$ 3,695	$ (18,557)	$ (30,647)	$ 2,045	$ 322,538	$ 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 three months ended September 30, 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 a liability extinguishment gain recorded by the joint venture, of which the Company's proportionate share totaled $14.1 million. Refer to "Credit Losses and Impairment on Investments" in Note 2, "Summary of Significant Accounting Policies" for additional discussion.

(4) Includes a loan loss reserve recorded by the joint venture, of which the Company's proportionate share totaled $15.8 million. Refer to "Credit Losses and Impairment on Investments" in Note 2, "Summary of Significant Accounting Policies" for additional discussion.

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

	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
Portfolio	Equity in Earnings (Losses)	Select Revenues and Expenses, net[1]	Cash Distributions	Equity in Earnings (Losses)	Select Revenues and Expenses, net[1]	Cash Distributions
Eclipse	$ 11	$ (1,304)	$ 621	$ (1,186)	$ (2,660)	$ 985
Envoy	(29)	(300)	283	419	(1)	427
Griffin - American	(3,692)	(13,500)	4,193	(5,795)	(15,228)	6,913
Espresso	6,331 [2]	2,296	—	(19,258) [3]	(27,032)	3,307
Trilogy	1,137	(11,244)	4,816	(5,414)	(17,637)	—
Subtotal	$ 3,758	$ (24,052)	$ 9,913	$ (31,234)	$ (62,558)	$ 11,632
Operator Platform[4]	149	—	107	—	—	—
Total	$ 3,907	$ (24,052)	$ 10,020	$ (31,234)	$ (62,558)	$ 11,632

(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 a liability extinguishment gain recorded by the joint venture, of which the Company's proportionate share totaled $14.1 million. Refer to "Credit Losses and Impairment on Investments" in Note 2, "Summary of Significant Accounting Policies" for additional discussion.

(3) Includes a loan loss reserve recorded by the joint venture, of which the Company's proportionate share totaled $15.8 million. Refer to "Credit Losses and Impairment on Investments" in Note 2, "Summary of Significant Accounting Policies" for additional discussion.

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

5. Real Estate Debt Investments

The following table presents the Company's one debt investment as of September 30, 2018 and December 31, 2017 (dollars in thousands):

		Carrying Value			
Asset Type:	Principal Amount	September 30, 2018 (Unaudited)	December 31, 2017	Fixed Rate	Unlevered Current Yield
Mezzanine loan[1]	$ 75,000	$ 74,725	$ 74,650	10.0%	10.3%

(1) Loan has a final maturity date of January 30, 2021.

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 September 30, 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 September 30, 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 nine months ended September 30, 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 September 30, 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 nine months ended September 30, 2018.

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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 three and nine months ended September 30, 2018 and 2017 related to the securitization trust on the consolidated statements of operations (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Statements of Operations				
Interest income on mortgage loans held in a securitized trust	$ —	$ 6,536	$ 5,149	$ 19,503
Interest expense on mortgage obligations issued by a securitization trust	—	(4,919)	(3,824)	(14,662)
Net interest income	—	1,617	1,325	4,841
Other expenses related to securitization trust	—	981	(811)	2,947
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net	—	384	—	1,108
Net income attributable to NorthStar Healthcare Income, Inc. common stockholders	$ —	$ 1,020	$ 514	$ 3,002

For the nine months ended September 30, 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.

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(Unaudited)

7. Borrowings

The following table presents the Company's borrowings as of September 30, 2018 and December 31, 2017 (dollars in thousands):

				September 30, 2018 (Unaudited)		December 31, 2017	
	Recourse vs. Non-Recourse	Final Maturity	Contractual Interest Rate[1]	Principal Amount[2]	Carrying Value[2]	Principal Amount[2]	Carrying Value[2]
Mortgage notes payable, net							
Peregrine Portfolio[3]							
Various locations	Non-recourse	Dec-19	LIBOR + 3.50%	$ 16,652	$ 16,352	$ 23,417	$ 23,030
Watermark Aqua Portfolio							
Denver, CO	Non-recourse	Feb-21	LIBOR + 2.92%	20,945	20,841	21,193	21,053
Frisco, TX	Non-recourse	Mar-21	LIBOR + 3.04%	19,531	19,438	19,755	19,630
Milford, OH	Non-recourse	Sep-26	LIBOR + 2.68%	18,760	18,270	18,760	18,216
Rochester Portfolio							
Rochester, NY	Non-recourse	Feb-25	4.25%	21,000	20,879	21,444	21,312
Rochester, NY[4]	Non-recourse	Aug-27	LIBOR + 2.34%	101,224	100,136	101,224	100,061
Arbors Portfolio[5]							
Various locations	Non-recourse	Feb-25	3.99%	91,173	89,869	92,407	90,913
Watermark Fountains Portfolio[6]							
Various locations	Non-recourse	Jun-22	3.92%	401,000	398,134	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%	645,634	624,267	648,211	624,656
Bonaventure Portfolio[8]							
Various locations	Non-recourse	Feb-27	4.66%	72,466	71,829	72,466	71,771
Subtotal mortgage notes payable, net				1,483,786	1,454,791	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				$ 1,499,641	$ 1,470,646	$ 1,520,133	$ 1,487,480

(1) Floating rate borrowings are comprised of $160.5 million principal amount at one-month London Interbank Offered Rate ("LIBOR") and $16.7 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 cross-defaulted.
(5) Comprised of four individual mortgage notes payable secured by four healthcare real estate properties, cross-collateralized and cross-defaulted.
(6) Includes $401.0 million principal amount of fixed rate borrowings, secured by 14 healthcare real estate properties, cross-collateralized and cross-defaulted as well as a supplemental financing totaling $75.4 million of principal, secured by seven healthcare real estate properties, cross-collateralized and cross-defaulted.
(7) Comprised of 32 individual mortgage notes payable secured by 32 healthcare real estate properties, cross-collateralized and cross-defaulted.
(8) Comprised of five individual mortgage notes payable secured by five healthcare real estate properties, cross-collateralized and cross-defaulted.

The following table presents scheduled principal payments on borrowings based on final maturity as of September 30, 2018 (dollars in thousands):

October 1 to December 31, 2018	$	5,598
Years Ending December 31:		
2019		52,220
2020		24,345
2021		63,943
2022		464,987
Thereafter		888,548
Total	$	1,499,641

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 as of September 30, 2018. However, during the nine months ended September 30, 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.

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. As of December 31, 2017, the Company had drawn and fully repaid $25.0 million under the Sponsor Line and did not utilize the Sponsor Line during the nine months ended September 30, 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 September 30, 2018.

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).

In December 2017, the Company's advisory agreement was amended. 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).

In December 2017, the Company's advisory agreement was amended. 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 table presents the fees and reimbursements incurred to the Advisor for the nine months ended September 30, 2018 and the amount due to related party as of September 30, 2018 and December 31, 2017 (dollars in thousands):

Type of Fee or Reimbursement	Financial Statement Location	Due to Related Party as of December 31, 2017	Nine Months Ended September 30, 2018		Due to Related Party as of September 30, 2018 (Unaudited)
			Incurred	Paid	
Fees to Advisor Entities					
Asset management[1]	Asset management and other fees-related party	$ —	$ 17,853	$ (17,853) [2]	$ —
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	8,621	(7,168)	2,491
Total		$ 1,046	$ 26,466	$ (25,021)	$ 2,491

(1) Includes $7.5 million paid in shares of the Company's common stock.
(2) From inception through September 30, 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 nine months ended September 30, 2018, nor were any such fees outstanding as of December 31, 2017.
(3) As of September 30, 2018, the Advisor does not have any unreimbursed operating costs which remain 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 nine months ended September 30, 2018, the Company issued 0.9 million shares totaling $7.5 million to an affiliate of the Advisor as part of its asset management fee.

Investments in Joint Ventures

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. ("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 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 March 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. Refer to Note 15, "Subsequent Events" for additional information.

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 September 30, 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 approximately $45,000 and $47,000 for the three months ended September 30, 2018 and 2017, respectively and $129,000 and $146,000 for the nine months ended September 30, 2018 and 2017, 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 and $0.2 million as of September 30, 2018 and December 31, 2017, respectively. Unvested shares totaled 25,947 and 19,248 as of September 30, 2018 and December 31, 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, in connection with its determination of the estimated value of the Company's shares of common stock as of December 31, 2015, 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. From April 2016 to December 2016, the purchase price per share under the DRP was $8.63 per share, which was equal to the estimated value per share of the Company shares of common stock as of December 31, 2015. From December 2016 to December 2017, the purchase price per share under the DRP was $9.10 per share, which was equal to the estimated value per share of the Company's shares of common stock as of June 30, 2016. In December 2017, the purchase price per share under the DRP became $8.50 per share, which is equal to the estimated value per share as of June 30, 2017.

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

For the nine months ended September 30, 2018, the Company issued 3.1 million shares of common stock totaling $26.3 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 September 30, 2018, the Company issued 24.2 million shares of common stock, generating gross offering proceeds of $220.4 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, which is equivalent to an annualized distribution amount of $0.675 per share of the Company's common stock.

The Company's 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 each of the nine months ended September 30, 2018.

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

The following table presents distributions declared for the nine months ended September 30, 2018 (dollars in thousands):

	Distributions[1]		
Period	Cash	DRP	Total
2018			
January	$ 2,603	$ 2,767	$ 5,370
February	2,384	2,448	4,832
March	2,697	2,661	5,358
April	2,629	2,572	5,201
May	2,731	2,626	5,357
June	2,668	2,524	5,192
July	2,803	2,578	5,381
August	2,813	2,550	5,363
September	2,758	2,439	5,197
Total	$ 24,086	$ 23,165	$ 47,251

(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 nine months ended September 30, 2018, 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.

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 may not repurchase shares unless a stockholder has held shares for one year. However, the Company may repurchase shares held less than one year in connection with a stockholder's death or qualifying disability. 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).

For the nine months ended September 30, 2018, the Company repurchased 3.0 million shares of common stock for $23.8 million at an average price of $7.86 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. As of September 30, 2018, the Company had a total of 12.0 million shares, or $101.8 million, based on its most recently published estimated value per share of $8.50, in unfulfilled repurchase requests. Refer to Note 15, "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 three and nine months ended September 30, 2018 and 2017 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 $0.1 million and $0.4 million for the three and nine months ended September 30, 2018. Net loss attributable to the other non-controlling interests was approximately $97,000 and $27,000 for the three and nine months ended September 30, 2017.

12. Fair Value

Fair Value Measurement

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

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

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

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

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

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

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

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

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

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 September 30, 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 September 30, 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 September 30, 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 nine months ended September 30, 2018 and year ended December 31, 2017 (dollars in thousands):

	Nine Months Ended September 30, 2018 (Unaudited)	Year Ended December 31, 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 nine months ended September 30, 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 year ended December 31, 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 September 30, 2018 and December 31, 2017 (dollars in thousands):

	September 30, 2018 (Unaudited)			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	$ 74,725	$ 75,000	$ 75,000	$ 74,650	$ 75,000
Financial liabilities:[1]						
Mortgage and other notes payable, net	$ 1,499,641	$ 1,470,646	$ 1,445,360	$ 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. Segment Reporting

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

- *Real Estate Equity* - Focused on equity investments, directly or through joint ventures, with a focus on properties in the mid-acuity senior housing sector, which the Company defines as ALF, MCF, SNF, ILF and CCRC. The Company's equity investments may also include 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's healthcare properties generally operate under net leases or through management agreements with independent third-party operators.
- *Real Estate Debt* - Focused on originating, acquiring and asset managing healthcare-related debt investments and may include first mortgage loans, subordinate interests and mezzanine loans and participations in such loans, as well as preferred equity interests.
- *Healthcare-Related Securities* - Focused on investing in and asset managing healthcare-related securities primarily consisting of CMBS, commercial mortgage obligations and other 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 real estate equity 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.

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

The following table presents the operators and tenants of the Company's properties, excluding properties owned through unconsolidated joint ventures as of September 30, 2018 (dollars in thousands):

				Nine Months Ended September 30, 2018	
Operator / Tenant		**Properties Under Management**	**Units Under Management[1]**	**Property and Other Revenues**	**% of Total Property and Other Revenues**
Watermark Retirement Communities		29	5,225	$ 115,463	52.4 %
Solstice Senior Living	(2)	32	4,000	79,350	36.0 %
Avamere Health Services	(3)	5	453	12,541	5.7 %
Arcadia Management		4	572	7,961	3.6 %
Integral Senior Living	(2)	3	162	3,852	1.7 %
Peregrine Senior Living		2	114	1,114	0.5 %
Senior Lifestyle Corporation	(4)	2	115	(195)	(0.1)%
Other	(5)	—	—	464	0.2 %
Total		77	10,641	$ 220,550	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.
(5) Represents interest income earned on corporate-level cash accounts.

The following tables present segment reporting for the three months ended September 30, 2018 and 2017 (dollars in thousands):

Statement of Operations:

Three Months Ended September 30, 2018[1]	**Real Estate Equity**	**Real Estate Debt**	**Corporate[2]**	**Total**
Rental and resident fee income	$ 72,455	$ —	$ —	$ 72,455
Net interest income on debt and securities	—	1,943	—	1,943
Other revenue	846	—	169	1,015
Property operating expenses	(47,355)	—	—	(47,355)
Interest expense	(17,595)	—	(82)	(17,677)
Other expenses related to securitization trust	—	—	—	—
Transaction costs	—	—	—	—
Asset management and other fees - related party	—	—	(5,951)	(5,951)
General and administrative expenses	(232)	(10)	(2,576)	(2,818)
Depreciation and amortization	(25,629)	—	—	(25,629)
Impairment loss	—	—	—	—
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net	—	—	—	—
Realized gain (loss) on investments and other	726	—	—	726
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	(16,784)	1,933	(8,440)	(23,291)
Equity in earnings (losses) of unconsolidated ventures	16,631	—	—	16,631
Income tax benefit (expense)	(10)	—	—	(10)
Net income (loss)	$ (163)	$ 1,933	$ (8,440)	$ (6,670)

(1) For the three months ended September 30, 2018, the Company did not have activity in the healthcare-related securities segment as a result of having sold the Class B certificates of its consolidated Investing VIE in March 2018 and no longer having to consolidate the related interest income and interest expense on the consolidated statements of operations.
(2) Includes unallocated asset management fee-related party and general and administrative expenses.

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

Three Months Ended September 30, 2017	Real Estate Equity	Real Estate Debt	Healthcare-Related Securities	Corporate[1]	Subtotal	Investing VIE[2]	Total
Rental and resident fee income	$ 73,740	$ —	$ —	$ —	$ 73,740	$ —	$ 73,740
Net interest income on debt and securities	—	1,940	1,025 [3]	(389) [3]	2,576	981	3,557
Other revenue	541	—	—	120	661	—	661
Property operating expenses	(42,981)	—	—	—	(42,981)	—	(42,981)
Interest expense	(15,687)	—	—	—	(15,687)	—	(15,687)
Other expenses related to securitization trust	—	—	—	—	—	(981)	(981)
Transaction costs	(3,814)	—	—	—	(3,814)	—	(3,814)
Asset management and other fees - related party	—	—	—	(13,299)	(13,299)	—	(13,299)
General and administrative expenses	(262)	(12)	—	(2,767)	(3,041)	—	(3,041)
Depreciation and amortization	(24,454)	—	—	—	(24,454)	—	(24,454)
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net	—	—	(5)	389	384	—	384
Realized gain (loss) on investments and other	—	—	—	—	—	—	—
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	(12,917)	1,928	1,020	(15,946)	(25,915)	—	(25,915)
Equity in earnings (losses) of unconsolidated ventures	(18,557)	—	—	—	(18,557)	—	(18,557)
Income tax benefit (expense)	(15)	—	—	—	(15)	—	(15)
Net income (loss)	$ (31,489)	$ 1,928	$ 1,020	$ (15,946)	$ (44,487)	$ —	$ (44,487)

(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 healthcare-related 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 three months ended September 30, 2017, $0.4 million was attributable to discount accretion income and was eliminated in consolidation in the corporate segment.

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

The following tables present segment reporting for the nine months ended September 30, 2018 and 2017 (dollars in thousands):

Statement of Operations:

Nine Months Ended September 30, 2018	Real Estate Equity	Real Estate Debt	Healthcare-Related Securities	Corporate[1]	Subtotal	Investing VIE[2]	Total
Rental and resident fee income	$ 217,858	$ —	$ —	$ —	$ 217,858	$ —	$ 217,858
Net interest income on debt and securities	—	5,763	828 [3]	(314) [3]	6,277	811	7,088
Other revenue	2,228	—	—	464	2,692	—	2,692
Property operating expenses	(141,510)	—	—	—	(141,510)	—	(141,510)
Interest expense	(52,215)	—	—	(193)	(52,408)	—	(52,408)
Other expenses related to securitization trust	—	—	—	—	—	(811)	(811)
Transaction costs	(806)	—	—	—	(806)	—	(806)
Asset management and other fees - related party	—	—	—	(17,845)	(17,845)	—	(17,845)
General and administrative expenses	(734)	(29)	(5)	(9,159)	(9,927)	—	(9,927)
Depreciation and amortization	(81,943)	—	—	—	(81,943)	—	(81,943)
Impairment loss	(5,239)	—	—	—	(5,239)	—	(5,239)
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net	—	—	(314)	314	—	—	—
Realized gain (loss) on investments and other	726	—	3,495	—	4,221	—	4,221
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	(61,635)	5,734	4,004	(26,733)	(78,630)	—	(78,630)
Equity in earnings (losses) of unconsolidated ventures	3,907	—	—	—	3,907	—	3,907
Income tax benefit (expense)	(40)	—	—	—	(40)	—	(40)
Net income (loss)	$ (57,768)	$ 5,734	$ 4,004	$ (26,733)	$ (74,763)	$ —	$ (74,763)

(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 healthcare-related 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 nine months ended September 30, 2018, $0.3 million was attributable to discount accretion income and was eliminated in consolidation in the corporate segment.

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

Nine Months Ended September 30, 2017	Real Estate Equity	Real Estate Debt	Healthcare-Related Securities	Corporate[1]	Subtotal	Investing VIE[2]	Total
Rental and resident fee income	$ 207,249	$ —	$ —	$ —	$ 207,249	$ —	$ 207,249
Net interest income on debt and securities	—	5,755	3,016 [3]	(1,122) [3]	7,649	2,947	10,596
Other revenue	1,595	—	—	596	2,191	—	2,191
Property operating expenses	(118,526)	—	—	—	(118,526)	—	(118,526)
Interest expense	(44,479)	—	—	—	(44,479)	—	(44,479)
Other expenses related to securitization trust	—	—	—	—	—	(2,947)	(2,947)
Transaction costs	(6,778)	—	—	—	(6,778)	—	(6,778)
Asset management and other fees - related party	—	—	—	(32,716)	(32,716)	—	(32,716)
General and administrative expenses	(682)	(39)	—	(7,671)	(8,392)	—	(8,392)
Depreciation and amortization	(69,223)	—	—	—	(69,223)	—	(69,223)
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net	—	—	(14)	1,122	1,108	—	1,108
Realized gain (loss) on investments and other	118	—	—	—	118	—	118
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	(30,726)	5,716	3,002	(39,791)	(61,799)	—	(61,799)
Equity in earnings (losses) of unconsolidated ventures	(31,234)	—	—	—	(31,234)	—	(31,234)
Income tax benefit (expense)	(56)	—	—	—	(56)	—	(56)
Net income (loss)	$ (62,016)	$ 5,716	$ 3,002	$ (39,791)	$ (93,089)	$ —	$ (93,089)

(1) Includes unallocated asset management fee-related party and general and administrative expenses.
(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 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 healthcare-related 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 nine months ended September 30, 2017, $1.1 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 September 30, 2018 and December 31, 2017 (dollars in thousands):

Total Assets:	Real Estate Equity[1]	Real Estate Debt	Healthcare-Related Securities	Corporate[2]	Subtotal	Investing VIEs[3]	Total
September 30, 2018 (Unaudited)	$ 2,245,420	$ 75,350	$ —	$ 29,304	$ 2,350,074	$ —	$ 2,350,074
December 31, 2017	2,339,873	75,296	32,484	3,925	2,451,578	547,175	2,998,753

(1) Includes investments in unconsolidated joint ventures totaling $322.5 million and $325.6 million as of September 30, 2018 and December 31, 2017, respectively.
(2) 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.
(3) 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 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's management and chief decision makers view the Company's investment in the securitization trust as a net investment in healthcare-related securities. As such, the Company has presented the statements of operations and balance sheets within this note in a manner consistent with the views of the Company's management and chief decision makers.

14. 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

consolidated balance sheets as of September 30, 2018. There was no change to the fair value of the contingent consideration for the nine months ended September 30, 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.

15. Subsequent Events

Distribution Reinvestment Plan

For the period from October 1, 2018 through November 8, 2018, the Company issued 0.6 million shares pursuant to the DRP, representing gross proceeds of $4.9 million.

Share Repurchases

On October 12, 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 period from October 1, 2018 through November 8, 2018, the Company repurchased 0.2 million shares for a total of $2.1 million or a price of $8.50 per share under the Share Repurchase Program. The Company funds repurchase requests received during a quarter with cash from proceeds of the DRP. Prior to the approval of the amended and restated Share Repurchase program, the Company had a total of 12.0 million shares, or $101.8 million, based on its most recently published estimated value per share of $8.50, in unfulfilled repurchase requests. Refer to Note 10, "Stockholders' Equity" for additional information regarding the Share Repurchase Program.

Distributions

During the period from October 1, 2018 through November 8, 2018, the Company's board of directors approved a daily cash distribution of $0.000924658 per share of common stock for the months ended November 30, 2018 and December 31, 2018. Distributions are generally paid to stockholders on the first business day of the month following the month for which the distribution was accrued.

Dispositions

Trilogy

In October 2018, the Company sold 20.0% of its ownership interest, or approximately 6.0%, 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. The sale was approved by the Company's board of directors, including all of its independent directors.

Envoy

In October 2018, the Envoy joint venture, of which the Company owns 11.4%, executed a purchase and sale agreement totaling $116.0 million for the remaining 11 properties in the portfolio.

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

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

Overview

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

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

We 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. From inception through November 8, 2018, we raised total gross proceeds of $2.0 billion, including $225.3 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. As of September 30, 2018, our Sponsor had $44.0 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.

2018 Highlights

Performance Summary

For the nine months ended September 30, 2018, the operating real estate in our consolidated equity investment portfolios experienced a decline in performance, on a same store basis, as compared to prior year results. More specifically, senior housing operating performance was 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;
- Unfavorable seasonal conditions, driving higher costs for utilities and maintenance;
- A particularly severe flu season, with the Center for Disease Control (CDC) reporting an increase in the percentage of outpatient visits due to Influenza-like Illness (ILI) that approached the peak seen in 2009-2010; and
- Disruptions and related expenses due to operator transitions, particularly for the Winterfell (transition began in November 2017) and Rochester portfolios (operator transition 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 equity investment portfolios collectively experienced a decline in operational performance for the nine months ended September 30, 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 approved business initiatives, including senior housing campus development. During the nine months ended September 30, 2018, we received distributions from Trilogy totaling $4.8 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 Griffin-American Healthcare REIT IV, Inc., a REIT sponsored by 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 and cured the outstanding non-monetary default.
- In March 2018, we satisfied all post-closing obligations, including the pledge of borrowing base assets, under a corporate credit facility with Key Bank, or our Corporate Facility. In addition, 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.
- Our board of directors approved a daily cash distribution of $0.000924658 per share of common stock for each of the nine months ended September 30, 2018.
- 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.

Portfolio

- In February 2018, we began the transition of operations of the Bonaventure portfolio from the former manager, an affiliate of Bonaventure Senior Living, to a new manager, Avamere.
- Development and construction of the memory care facility adjacent to the Pinebrook facility continued throughout 2018 to date, with a projected completion date in the fourth quarter of 2018.
- During the first three quarters of 2018, the Espresso joint venture continued the process of transitioning operators within three of its sub-portfolios. As of September 2018, all three sub-portfolios successfully executed their operator transition plans. During this period, the joint venture sold one operating facility and one remains held for sale.
- On a same store basis (which excludes properties purchased during 2017), rental and resident fee income, net of property operating expenses, of our consolidated equity investment portfolios decreased to $23.3 million for the three months ended September 30, 2018 as compared to $26.8 million for the three months ended September 30, 2017, and increased as compared to $21.4 million for the three months ended June 30, 2018.
- On a same store basis, rental and resident fee income, net of property operating expenses, decreased to $69.5 million for the nine months ended September 30, 2018 as compared to $81.1 million for the nine months ended September 30, 2017. Declines in average occupancy and rising labor costs, most significantly in the Winterfell portfolio, were the primary drivers of the decrease in both the three and nine months ended September 30, 2018.

- The Winterfell portfolio's occupancy increased to an average of 79.6% in the third quarter of 2018 from 78.6% in the second quarter of 2018. However, the average occupancy for the third quarter of 2018 remains below the 87.4% average occupancy achieved in the third quarter of 2017. In November 2017, we began the transition of management for the Winterfell portfolio to Solstice Senior Living ("Solstice"). This portfolio represents 32 of the 49 communities that underwent tenant, manager and/or operator transitions within our consolidated portfolios beginning in 2017 and continuing into early 2018. The portfolio continues to experience the inherent challenges and obstacles that occur with an operator transition of this size and complexity. Our management team is working closely with Solstice and the rest of our operating partners to implement focused and strategic plans to increase occupancy and improve performance in this challenging market.

Our Investments

Our primary investment types are as follows:

- Real Estate Equity - Our equity investments, which may be owned directly or through joint ventures, include 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 healthcare properties are typically operated under net leases or pursuant to management agreements with healthcare operators. As of September 30, 2018, 97.9% of our investments were invested in healthcare real estate equity, either directly or through joint ventures.

- Real Estate Debt - Our debt investments may include mortgage loans or mezzanine loans to owners of healthcare real estate. As of September 30, 2018, we had one mezzanine loan, which represented 2.1% of our investments.

- Healthcare-Related Securities - Our securities investments may include commercial mortgage backed securities, or CMBS, backed primarily by loans secured by healthcare properties. We disposed of our investment in a Freddie Mac securitization trust in March 2018.

The following table presents our investments as of September 30, 2018 (dollars in thousands):

Investment Type:	Count[1]	Amount[2][3]	% of Total	Capacity		Primary Locations
Real estate equity[4]						
MOB	108	$ 187,486	5.3%	3.8 million	square feet	IL, GA, OH, TX, IN
Net lease						
Senior housing facilities[5]	86	578,571	16.2%	6,260	units	NY, CA, FL, UK, WA
SNF	231	441,644	12.4%	24,843	beds	PA, MI, KY, IN, WI
Hospitals	14	40,772	1.1%	872	beds	CA, TX, MO, UT, GA
Operating						
Senior housing facilities[5]	142	1,854,533	52.1%	13,701	units	CA, WA, TX, NY, IL
SNF	73	382,536	10.7%	8,036	beds	IN, OH, MI, KY, MA
Ancillary[6]	NA	2,214	0.1%	N/A		
Total real estate equity	654	3,487,756	97.9%			
Real estate debt						
Mezzanine loan	1	75,000	2.1%			
Total real estate debt	1	75,000	2.1%			
Corporate investments						
Operator platform[7]	1	2	—%			
Total corporate investments	1	2	—%			
Total investments	656	$ 3,562,758	100.0%			

(1) For real estate equity, the count represents the number of properties. For real estate debt, the count represents the number of respective financial instruments. Does not include properties held for sale.
(2) 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.
(3) Includes our proportionate interest in the underlying real estate held through unconsolidated joint ventures of $1.3 billion.
(4) Classification of investment type based on predominant services provided, but may include other services.
(5) Includes ALF, MCF, ILF and CCRC.
(6) Includes institutional pharmacy in connection with the Trilogy investment.
(7) Represents investment in Solstice. 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%.

For financial information regarding our reportable segments, refer to Note 13, “Segment Reporting” in our accompanying consolidated financial statements included in Part I, Item 1. “Financial Statements.”

Real Estate Equity Overview

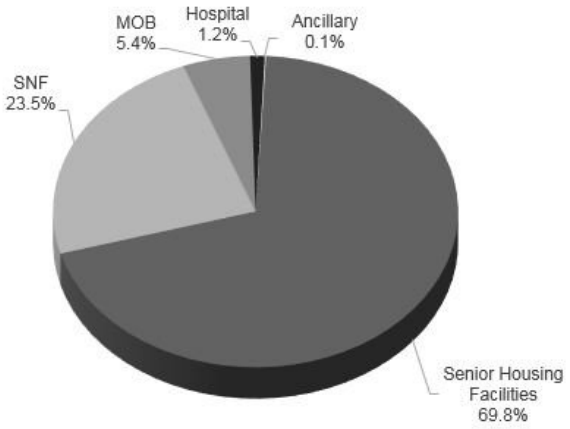
As of September 30, 2018, $3.5 billion, or 97.9%, based on cost, of our investments were invested in healthcare real estate equity, either directly or through joint ventures. Our healthcare properties are typically operated under net leases or pursuant to management agreements with healthcare operators. For our net leased 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. 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, while our net leased properties are for fixed contractual rents.

Our equity investments, including both net lease and operating investments, primarily consisted of the following types of healthcare facilities as of September 30, 2018:

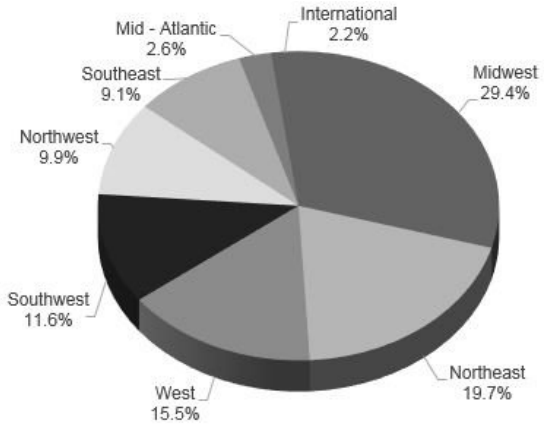
- *Senior Housing.* We define senior housing to include ILFs, ALFs, MCFs and CCRCs, as described in further detail below. Revenues generated by senior housing facilities typically come from private pay sources, including private insurance, and to a much lesser extent government reimbursement programs, 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, generally under contracts with the residents (frequently lasting the term of the resident's lifetime).
- *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.* Services provided by operators and tenants in hospitals are paid for by private sources, third-party payers (e.g., insurance and Health Maintenance Organizations), or through the Medicare and Medicaid programs. Our hospital properties typically will include acute care, long-term acute care, specialty and rehabilitation hospitals and generally are leased to single tenants or operators under triple-net lease structures.

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.

The following table presents a summary of our real estate equity investments as of September 30, 2018 (dollars in thousands):

			Properties[1]						
Portfolio	Investment Structure	Amount[2]	Senior Housing Facilities	MOB	SNF	Hospitals	Total	Primary Locations	Ownership Interest
Direct Investments									
Watermark Aqua	Operating Facilities	$ 115,379	4	—	—	—	4	West/ Southwest/ Midwest	97.0%
Peregrine	Net Lease	36,498	4	—	—	—	4	Northeast/ Southeast	100.0%
Kansas City	Operating Facilities	15,000	2	—	—	—	2	Midwest	100.0%
Arbors	Net Lease	126,825	4	—	—	—	4	Northeast	100.0%
Watermark Fountains[3]	Net Lease/Operating Facilities	645,751	15	—	—	—	15	Various	Various
Winterfell	Operating Facilities	904,985	32	—	—	—	32	Various	100.0%
Bonaventure	Operating Facilities	99,438	5	—	—	—	5	Northwest	100.0%
Oak Cottage	Operating Facilities	19,427	1	—	—	—	1	West	100.0%
Rochester	Operating Facilities	219,518	10	—	—	—	10	Northeast	97.0%
Total Direct Investments		2,182,821	77	—	—	—	77		
Joint Venture Investments[4]									
Eclipse	Net Lease/Operating Facilities	56,540	44	—	32	—	76	Various	5.6%
Envoy	Net Lease	13,138	—	—	11	—	11	Mid - Atlantic/ Northeast	11.4%
Griffin-American	Net Lease/Operating Facilities	475,861	92	108	41	14	255	Various	14.3%
Espresso	Net Lease	320,373	6	—	150	—	156	Various	36.7%
Trilogy[5]	Operating Facilities	439,023	9	—	70	—	79	Various	29.0%
Total Joint Venture Investments		1,304,935	151	108	304	14	577		
Total		$ 3,487,756	228	108	304	14	654		

(1) Classification based on predominant services provided, but may include other services.
(2) Includes purchase price allocations related to net intangibles, deferred costs, other assets, if any, and adjusted for subsequent capital expenditures.
(3) 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 these properties consists of 11 condominium units in which we hold future interests, or the Remainder Interests.
(4) Represents our proportionate interest in real estate assets held through unconsolidated joint ventures.
(5) Includes institutional pharmacy, which are not subject to property count.

Unconsolidated Investments

As of September 30, 2018, our unconsolidated joint venture investments, totaling $1.3 billion, comprised 37.4% of our total real estate equity investments portfolio and represented a 19.1% indirect exposure to over $6.8 billion in real estate equity investment, in each case based on cost, alongside our joint venture partners. As of September 30, 2018, our unconsolidated joint venture investments included the following:

- *Trilogy*. We own a 29.0% 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. Griffin-American Healthcare REIT III, Inc., or GAHR 3, and management of Trilogy own the remaining 71.0% of this portfolio. For additional information, refer to Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments."
- *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 owns the remaining 85.7% 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. 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 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 Formation own 86.4% and 8.0% of this portfolio, respectively.
- *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.

Operators and Managers

The following table presents the operators and tenants of our properties, excluding properties owned through unconsolidated joint ventures, as of September 30, 2018 (dollars in thousands):

				Nine Months Ended September 30, 2018	
Operator / Tenant		**Properties Under Management**	**Units Under Management[1]**	**Property and Other Revenues**	**% of Total Property and Other Revenues**
Watermark Retirement Communities		29	5,225	$ 115,463	52.4 %
Solstice Senior Living	(2)	32	4,000	79,350	36.0 %
Avamere Health Services	(3)	5	453	12,541	5.7 %
Arcadia Management		4	572	7,961	3.6 %
Integral Senior Living	(2)	3	162	3,852	1.7 %
Peregrine Senior Living		2	114	1,114	0.5 %
Senior Lifestyle Corporation	(4)	2	115	(195)	(0.1)%
Other	(5)	—	—	464	0.2 %
Total		77	10,641	$ 220,550	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.
(5) Represents interest income earned on corporate-level cash accounts.

Our net lease properties are leased to four operators, with a remaining weighted average lease term of 8.0 years as of September 30, 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. We also own 20% of Solstice, which entitles us to certain rights and minority protections.

The weighted average resident occupancy of our operating facilities was 82.0% as of September 30, 2018.

We have been and are currently in the process of transitioning several of our portfolios to new operators or managers. In certain instances, we are transitioning 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, Bonaventure and Oak Cottage portfolios, which were planned in connection with the acquisitions.

In other instances, the transition is the result of the failure of an operator to meet certain of their 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.

In addition, certain of our unconsolidated joint ventures are also in the process of transitioning portfolios to new operators. In particular, three of the sub-portfolios within the Espresso joint venture have experienced tenant lease defaults and operator transitions.

While several of our portfolios have completed the process of transitioning operators and managers during 2017, the ongoing impact of the completed transitions and potential new transitions is expected to continue through 2018.

Real Estate Debt Overview

As of September 30, 2018, $75.0 million, or 2.1%, of our investments were invested in real estate debt secured by healthcare facilities, consisting of one mezzanine loan, which matures on January 30, 2021. Our mezzanine loan relates to the Espresso portfolio, in which we also have an equity investment. Refer to "—Unconsolidated Investments" above.

The following table presents a summary of our debt investment as of September 30, 2018 (dollars in thousands):

Investment Type:	Count	Principal Amount	Carrying Value	Fixed Rate	Unleveraged Current Yield
Espresso Mezzanine loan[1]	1	$ 75,000	$ 74,725	10.0%	10.3%

(1) Property types securing the mezzanine loan predominately include SNFs, which are located primarily in the Midwest, Northeast and Southeast regions of the United States.

As of September 30, 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 September 30, 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 November 8, 2018, contractual debt service on the Espresso mezzanine loan has been paid in accordance with contractual terms.

Healthcare-Related Securities Overview

Healthcare-related securities consisted of the Class B certificates in a Federal Home Loan Mortgage Corporation, or Freddie Mac, securitization trust. The Class B certificates were purchased at a 47.0% discount, or $27.0 million, producing a bond equivalent yield of 13.1%, collateralized by a pool of 41 mortgage loans with a weighted average maturity of 9.8 years at the time of the acquisition.

We disposed of the Freddie Mac investment in March 2018.

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. 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

The U.S. economy continues to demonstrate positive underlying fundamentals, with strong gross domestic product, or GDP, growth and improving employment conditions. With the national unemployment rate at 3.7% as of September and third quarter GDP growth of 4.2%, overall macroeconomic conditions remain strong. The Federal Reserve's September 2018 decision to raise the federal funds rate for the third time in 2018 reflects a consensus that the economic foundation driving the current expansion remains sound, as well as a belief that the labor market is close to or already at full employment resulting in wage growth and increased consumer confidence levels. Market participants expect three to four additional rate increases through the end of 2019, reflecting general optimism about the current path of the U.S. economy. While higher interest rates may potentially reduce investor demand in the broader commercial real estate and income-oriented investment markets, we expect real estate prices and returns to remain attractive while inflation is targeted to remain at 2.0% in the near term.

Despite a backdrop of continued economic strength and positive corporate earnings results, rising treasury yields and the threat of trade protectionism have increased volatility in the markets, creating instability in stock valuations. While the reduction of U.S. corporate and personal tax rates is widely credited for stimulating strong GDP growth and market valuations during the first half of 2018, volatility will likely persist as investors adjust to higher risk-free rates, trade tensions and other geopolitical developments, including the results of the U.S. midterm elections. Overall, however, the market outlook remains positive, due to synchronized global growth, low inflation and modest perceived near-term recession risks. Corporate earnings remain strong, providing fundamental support for record stock valuations in the United States and Europe. In addition, benchmark 10-year interest rates in several other key global economies, including England, Germany and Japan, have trended to positive territory, signaling normalized market conditions while many global central banks continue to ease monetary policy to combat low inflation and economic stagnation. The pace of these changes may create volatility in global debt and equity markets, while at the same time the Federal Reserve experiences continued pressure to raise interest rates and reduce its large balance sheet holdings of financial instruments acquired during the financial crisis. In addition, the impact of potentially significant fiscal and regulatory policy changes, including significant changes to U.S. trade policy, infrastructure investment programs and fiscal deficit growth, may also have a considerable impact on the trajectory of the U.S. and global economies in the near future.

Commercial real estate fundamentals remain relatively healthy across U.S. property types. Given certain dynamics in the current market including (i) the continuing strength of the economy; (ii) a low interest rate environment; (iii) low relative new commercial real estate supply; and (iv) robust international demand for U.S. commercial real estate, we expect real estate values to trend positively due to increased property-level net operating income, strong transaction volume or a combination of both. Although commercial real estate transaction volume slowed slightly during 2017, property valuations remain at all-time highs across property sectors. Rising interest rates may present new challenges to the commercial mortgage market as well, although improved property valuations and potential net operating income growth could offset the impact of higher borrowing costs. The market for commercial mortgage-backed securities, which is often a proxy for the broader commercial real estate lending market, continues to perform across property types with $89.0 billion of issuance during 2017, an approximate 26% increase over 2016. Through the third quarter of 2018, overall issuance of $62.6 billion represents a modest increase over the same period in 2017 (source: Commercial Mortgage Alert). Despite strong issuance volume during 2017 and 2018 to date, overall CMBS issuance remains below pre-crisis levels due in part to uncertainty around the Dodd-Frank risk retention rules and capital requirements for banks. Given these trends, traditional capital sources may lack sufficient lending capacity to absorb the high refinancing demand, which may provide attractive lending opportunities for new market participants such as alternative investment platforms, REITs and insurance companies. Overall, economic and industry trends should support robust commercial real estate investment activity, providing attractive investment opportunities for commercial real estate capital providers with strong balance sheets and high underwriting standards.

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.

Overall, healthcare REITs have underperformed the broader REIT sector throughout 2018. Publicly traded healthcare REITs have experienced 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 upside 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 a tenant's/operator's 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. As of the third quarter 2018, senior housing occupancy is at its lowest occupancy rate in seven years and has been flat or in decline 11 consecutive quarters (source: NIC). While annual absorption has averaged a solid 2.4% during this current downturn, the total number of seniors housing units absorbed only amounts to 63% of the inventory growth during this period (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 payoff 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 (PPS) 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.

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:

- *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.

- *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.

- *Execute on Our Operator Transition Plan and Stabilize Our Portfolio.* We have been and are currently in the process of transitioning several of our portfolios to new operators or managers, both as a result of execution of our business plan in connection with recent acquisitions and to reposition properties as a result of performance issues by certain operators or managers. Refer to "—Operators and Managers" above.

- *Assess Opportunities for Asset Repositioning*. 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. Our strategy includes potentially selling and transitioning assets that do not meet our operator, real estate or market criteria or overall portfolio management strategy.

- *Consider Selective Dispositions.* 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.

- *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" for additional information.

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), uses 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. Our Advisor's asset management team is an experienced asset management team that monitors these factors on our behalf.

Our investments are reviewed on a quarterly basis, or more frequently as necessary, to assess whether there are any indicators that the value of our investments may be impaired or that carrying value may not be recoverable. In conducting these reviews, we

consider macroeconomic factors, including healthcare sector conditions, together with asset and market specific circumstances among other factors. To the extent an impairment has occurred, the loss will be measured as compared to the carrying amount of the investment. 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 September 30, 2018, the unconsolidated ventures in which we invest have recorded impairments and reserves, including a loan loss reserve for a direct financing lease receivable relating to our Espresso unconsolidated investment. 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 the Company's proportionate share totaled $14.1 million.

As of September 30, 2018, we had impaired a property located in Clinton, Connecticut within the Peregrine net lease portfolio by $7.4 million, which includes a $2.4 million impairment recognized during the nine months ended September 30, 2018, as the result of deteriorating operating results of the tenant. During the nine months ended September 30, 2018, we also recorded an impairment loss of $2.8 million to reflect the fair value of one of our consolidated operating properties within the Watermark Fountains portfolio as a result of designating the property and its operations as held for sale. The property was sold in August 2018 with no additional impairment recognized.

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.

Our Griffin-American joint venture has $1.85 billion of non-recourse mortgage debt on certain properties in the joint venture that matures in December 2019. On November 9, 2018, the Griffin-American joint venture repaid in full the $100.5 million floating rate component of this debt, primarily with proceeds received from a refinancing of a select portfolio of medical office buildings. Our 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 the remaining $1.75 billion fixed rate component of the debt, of which our proportionate share is approximately $300 million. In connection with pursuing the options available, the joint venture may re-evaluate certain assumptions, including with respect to the holding period of the real estate assets collateralizing the debt, which could result in impairment of these assets in a future period. As of September 30, 2018, the carrying value for our investment in the Griffin-American joint venture was $124.9 million.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP, which requires the use of estimates and assumptions that involve the exercise of judgment and that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. For critical accounting policies, refer to Note 2, "Summary of Significant Accounting Policies" in our accompanying consolidated financial statements included in Part I, Item 1. "Financial Statements."

Recent Accounting Pronouncements

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

Results of Operations

Comparison of the Three Months Ended September 30, 2018 to September 30, 2017 (dollars in thousands):

	Three Months Ended September 30,		Increase (Decrease)	
	2018	2017	Amount	%
Property and other revenues				
Resident fee income	$ 32,469	$ 33,233	$ (764)	(2.3)%
Rental income	39,986	40,507	(521)	(1.3)%
Other revenue	1,015	661	354	53.6 %
Total property and other revenues	73,470	74,401	(931)	(1.3)%
Net interest income				
Interest income on debt investments	1,943	1,940	3	0.2 %
Interest income on mortgage loans held in a securitized trust	—	6,536	(6,536)	(100.0)%
Interest expense on mortgage obligations issued by a securitization trust	—	(4,919)	4,919	(100.0)%
Net interest income	1,943	3,557	(1,614)	(45.4)%
Expenses				
Real estate properties - operating expenses	47,355	42,981	4,374	10.2 %
Interest expense	17,677	15,687	1,990	12.7 %
Other expenses related to securitization trust	—	981	(981)	(100.0)%
Transaction costs	—	3,814	(3,814)	(100.0)%
Asset management and other fees-related party	5,951	13,299	(7,348)	(55.3)%
General and administrative expenses	2,818	3,041	(223)	(7.3)%
Depreciation and amortization	25,629	24,454	1,175	4.8 %
Total expenses	99,430	104,257	(4,827)	(4.6)%
Other income (loss)				
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net	—	384	(384)	(100.0)%
Realized gain (loss) on investments and other	726	—	726	100.0 %
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	(23,291)	(25,915)	2,624	(10.1)%
Equity in earnings (losses) of unconsolidated ventures	16,631	(18,557)	35,188	(189.6)%
Income tax benefit (expense)	(10)	(15)	5	(33.3)%
Net income (loss)	$ (6,670)	$ (44,487)	$ 37,817	(85.0)%

Revenues

Resident Fee Income

The following table presents resident fee income generated during the three months ended September 30, 2018 as compared to the three months ended September 30, 2017 (dollars in thousands):

	Three Months Ended September 30,		Increase (Decrease)	
	2018	2017	Amount	%
Same store AL/MC/CCRC properties (placed in service - 2016 and prior)	$ 25,790	$ 24,883	$ 907	3.6 %
Properties placed in service - 2017	5,299 (1)	6,391	(1,092)	(17.1)%
Properties sold	1,380	1,959	(579)	(29.6)%
Total resident fee income	$ 32,469	$ 33,233	$ (764)	(2.3)%

(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 decreased $0.8 million primarily as a result of an overall decrease in occupancy experienced in the Kansas City and Oak Cottage portfolios. On a same store basis, occupancy and billing rates improved for 2018 as compared to 2017 for the Watermark Aqua and Fountains portfolios, driving an increase in resident fee income.

Rental Income

The following table presents rental income generated during the three months ended September 30, 2018 as compared to the three months ended September 30, 2017 (dollars in thousands):

	Three Months Ended September 30,		Increase (Decrease)	
	2018	2017	Amount	%
Same store IL properties (placed in service - 2016 and prior)	$ 25,632	$ 28,106	$ (2,474)	(8.8)%
Same store net lease properties (placed in service - 2016 and prior)	8,788	8,684	104	1.2 %
Properties placed in service - 2017	5,566	3,717	1,849	49.7 %
Total rental income	$ 39,986	$ 40,507	$ (521)	(1.3)%

Rental income decreased $0.5 million primarily as a result of a decrease in average occupancy for the Winterfell portfolio to 79.6% for the three months ended September 30, 2018 as compared to 87.4% for the three months ended September 30, 2017. This was partially offset by the Rochester portfolio acquisition, which closed during the third and fourth quarters of 2017.

Other Revenue

Other revenue increased $0.4 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 $1.6 million primarily as a result of the sale of our investment in the Freddie Mac securitization in the first quarter of 2018.

Expenses

Property Operating Expenses

The following table presents property operating expenses incurred during the three months ended September 30, 2018 as compared to the three months ended September 30, 2017 (dollars in thousands):

	Three Months Ended September 30,		Increase (Decrease)	
Same store (placed in service - 2016 and prior)	2018	2017	Amount	%
AL/MC/CCRC properties	$ 18,205	$ 17,748	$ 457	2.6 %
IL properties	18,441	17,153	1,288	7.5 %
Net lease properties	255	22	233	1,059.1 %
Properties placed in service - 2017	9,121 (1)	6,350	2,771	43.6 %
Properties sold	1,333	1,708	(375)	(22.0)%
Total property operating expense	$ 47,355	$ 42,981	$ 4,374	10.2 %

(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 $4.4 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 three months ended September 30, 2018 as compared to the three months ended September 30, 2017 (dollars in thousands):

	Three Months Ended September 30,		Increase (Decrease)	
Same store (placed in service - 2016 and prior)	2018	2017	Amount	%
AL/MC/CCRC properties	$ 4,046	$ 3,166	$ 880	27.8 %
IL properties	7,646	7,613	33	0.4 %
Net lease properties	3,271	3,085	186	6.0 %
Properties placed in service - 2017	2,584	1,725	859	49.8 %
Properties sold	48	98	(50)	(51.0)%
Corporate	82	—	82	100.0 %
Total interest expense	$ 17,677	$ 15,687	$ 1,990	12.7 %

Interest expense increased $2.0 million, as a result of mortgage and seller financing obtained for 2017 real estate portfolios 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 $1.0 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 primarily represent professional fees associated with new investments. Transaction costs for the three months ended September 30, 2017 are primarily the result of the Rochester portfolio acquisition, which closed in August 2017.

Asset Management and Other Fees - Related Party

Asset management and other fees - related party decreased $7.3 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 are 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 $0.2 million, primarily as a result of lower indirect overhead expense allocated for the three months ended September 30, 2018.

Depreciation and Amortization

The following table presents depreciation and amortization expense incurred during the three months ended September 30, 2018 as compared to the three months ended September 30, 2017 (dollars in thousands):

	Three Months Ended September 30,		Increase (Decrease)	
Same store (placed in service - 2016 and prior)	2018	2017	Amount	%
AL/MC/CCRC properties	$ 3,221	$ 2,980	$ 241	8.1 %
IL properties	15,582	15,524	58	0.4 %
Net lease properties	3,468	3,336	132	4.0 %
Properties placed in service - 2017	3,358	2,468	890	36.1 %
Properties sold	—	146	(146)	(100.0)%
Total depreciation and amortization expense	$ 25,629	$ 24,454	$ 1,175	4.8 %

Depreciation and amortization expense increased $1.2 million, primarily as a result of real estate portfolios acquired during 2017 and capital improvements funded on same store portfolios.

Other Income (Loss)

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

During the three months ended September 30, 2017, unrealized gain of $0.4 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 three months ended September 30, 2018 as a result of the disposal of the investment.

Realized Gain (Loss) on Investments and Other

During the three months ended September 30, 2018, realized gain (loss) on investments and other of $0.7 million represents gains from the sales of remainder interest units, net of a loss generated from the sale of the Fountains at Franklin property, in the Watermark Fountains portfolio. There were no realized gains or losses recognized for the three months ended September 30, 2017.

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

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

	Three Months Ended September 30,									
	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	$ (69)	$ (776)	$ (462)	$ (1,229)	$ 393	$ 453	$ (60)	(13.2)%	$ 176	$ 581
Envoy	339	247	64	(1)	275	248	27	10.9 %	283	248
Griffin - American	(1,805)	(1,261)	(4,688)	(4,553)	2,883	3,292	(409)	(12.4)%	1,771	1,216
Espresso	17,886	(16,609)	15,982	(19,964)	1,904	3,355	(1,451)	(43.2)%	—	—
Trilogy	239	(158)	(3,659)	(4,900)	3,898	4,742	(844)	(17.8)%	1,450	—
Subtotal	16,590	(18,557)	7,237	(30,647)	9,353	12,090	(2,737)	(22.6)%	3,680	2,045
Operator Platform[2]	41	—	—	—	41	—	41	100.0 %	15	—
Total	$ 16,631	$ (18,557)	$ 7,237	$ (30,647)	$ 9,394	$ 12,090	$ (2,696)	(22.3)%	$ 3,695	$ 2,045

(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 increased $35.2 million, primarily due to one-time events in our investment in the Espresso joint venture, which recorded a liability extinguishment gain during the three months ended September 30, 2018 and a loan loss reserve during the three months ended September 30, 2017. The liability extinguishment gain recognized during the three months ended September 30, 2018 and the loan loss reserve recognized during the three months ended September 30, 2017 were $14.1 million and $15.8 million, respectively. For additional information, refer to "—Portfolio Management."

Equity in earnings, net of select revenues and expenses, decreased $2.7 million primarily due to the Espresso portfolio, which has experienced three operator transitions, resulting in a decrease in revenues.

Income Tax Benefit (Expense)

Income tax expense for the three months ended September 30, 2018 was $10,000 and related to our operating properties, which operate through a taxable REIT subsidiary structure. Income tax expense for the three months ended September 30, 2017 was $15,000.

Comparison of the Nine Months Ended September 30, 2018 to September 30, 2017 (dollars in thousands):

	Nine Months Ended September 30,		Increase (Decrease)	
	2018	2017	Amount	%
Property and other revenues				
Resident fee income	$ 98,232	$ 93,060	$ 5,172	5.6 %
Rental income	119,626	114,189	5,437	4.8 %
Other revenue	2,692	2,191	501	22.9 %
Total property and other revenues	220,550	209,440	11,110	5.3 %
Net interest income				
Interest income on debt investments	5,763	5,755	8	0.1 %
Interest income on mortgage loans held in a securitized trust	5,149	19,503	(14,354)	(73.6)%
Interest expense on mortgage obligations issued by a securitization trust	(3,824)	(14,662)	10,838	(73.9)%
Net interest income	7,088	10,596	(3,508)	(33.1)%
Expenses				
Real estate properties - operating expenses	141,510	118,526	22,984	19.4 %
Interest expense	52,408	44,479	7,929	17.8 %
Other expenses related to securitization trust	811	2,947	(2,136)	(72.5)%
Transaction costs	806	6,778	(5,972)	(88.1)%
Asset management and other fees-related party	17,845	32,716	(14,871)	(45.5)%
General and administrative expenses	9,927	8,392	1,535	18.3 %
Depreciation and amortization	81,943	69,223	12,720	18.4 %
Impairment loss	5,239	—	5,239	100.0 %
Total expenses	310,489	283,061	27,428	9.7 %
Other income (loss)				
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net	—	1,108	(1,108)	(100.0)%
Realized gain (loss) on investments and other	4,221	118	4,103	3,477.1 %
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	(78,630)	(61,799)	(16,831)	27.2 %
Equity in earnings (losses) of unconsolidated ventures	3,907	(31,234)	35,141	(112.5)%
Income tax benefit (expense)	(40)	(56)	16	(28.6)%
Net income (loss)	$ (74,763)	$ (93,089)	$ 18,326	(19.7)%

Revenues

Resident Fee Income

The following table presents resident fee income generated during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017 (dollars in thousands):

	Nine Months Ended September 30,		Increase (Decrease)	
	2018	2017	Amount	%
Same store AL/MC/CCRC properties (placed in service - 2016 and prior)	$ 76,728	$ 74,086	$ 2,642	3.6 %
Properties placed in service - 2017	15,980 (1)	13,041	2,939	22.5 %
Properties sold	5,524	5,933	(409)	(6.9)%
Total resident fee income	$ 98,232	$ 93,060	$ 5,172	5.6 %

(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 $5.2 million primarily as a result of the acquisition of the Rochester portfolio, which closed in the third and fourth quarters of 2017. Additionally, a full nine months of activity from the Oak Cottage and Bonaventure portfolios, acquired in the first quarter of 2017, contributed to the increase. On a same store basis, occupancy and billing rates improved for 2018 as compared to 2017 for the Watermark Aqua and Fountains portfolios, driving an increase in resident fee income.

Rental Income

The following table presents rental income generated during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017 (dollars in thousands):

	Nine Months Ended September 30,		Increase (Decrease)	
	2018	2017	Amount	%
Same store IL properties (placed in service - 2016 and prior)	$ 77,430	$ 84,431	$ (7,001)	(8.3)%
Same store net lease properties (placed in service - 2016 and prior)	25,484	26,041	(557)	(2.1)%
Properties placed in service - 2017	16,712	3,717	12,995	349.6 %
Total rental income	$ 119,626	$ 114,189	$ 5,437	4.8 %

Rental income increased $5.4 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, average occupancy for the Winterfell portfolio decreased to 80.1% for the nine months ended September 30, 2018 as compared to 89.1% for the nine months ended September 30, 2017, partially offsetting the overall increase to rental income.

Other Revenue

Other revenue increased $0.5 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 $3.5 million primarily as a result of the sale of our investment in the Freddie Mac securitization in the first quarter of 2018.

Expenses

Property Operating Expenses

The following table presents property operating expenses incurred during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017 (dollars in thousands):

	Nine Months Ended September 30,		Increase (Decrease)	
Same store (placed in service - 2016 and prior)	2018	2017	Amount	%
AL/MC/CCRC properties	$ 54,085	$ 52,699	$ 1,386	2.6 %
IL properties	54,980	50,763	4,217	8.3 %
Net lease properties	1,089	14	1,075	7,678.6 %
Properties placed in service - 2017	26,340 (1)	9,880	16,460	166.6 %
Properties sold	5,016	5,170	(154)	(3.0)%
Total property operating expense	$ 141,510	$ 118,526	$ 22,984	19.4 %

(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 $23.0 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 as well as bad debt expense recorded for an operator of the Peregrine portfolio.

Interest Expense

The following table presents interest expense incurred during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017 (dollars in thousands):

	Nine Months Ended September 30,		Increase (Decrease)	
Same store (placed in service - 2016 and prior)	2018	2017	Amount	%
AL/MC/CCRC properties	$ 11,910	$ 9,314	$ 2,596	27.9 %
IL properties	22,750	22,487	263	1.2 %
Net lease properties	9,978	9,150	828	9.0 %
Properties placed in service - 2017	7,334	3,232	4,102	126.9 %
Properties sold	243	296	(53)	(17.9)%
Corporate	193	—	193	100.0 %
Total interest expense	$ 52,408	$ 44,479	$ 7,929	17.8 %

Interest expense increased $7.9 million, as a result of mortgage and seller financing obtained for 2017 real estate portfolios 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 $2.1 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 primarily represent professional fees associated with new investments. Transaction costs for the nine months ended September 30, 2018 are primarily a result of the residual costs incurred for the Winterfell and Bonaventure operator transition. Transaction costs for the nine months ended September 30, 2017 are primarily a result of three real estate portfolio acquisitions that closed during the year, as well as the Winterfell operator transition cost.

Asset Management and Other Fees - Related Party

Asset management and other fees - related party decreased $14.9 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 are 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 increased $1.5 million, primarily as a result of an increase in professional fees, partially offset by lower indirect overhead expense allocated for the nine months ended September 30, 2018.

Depreciation and Amortization

The following table presents depreciation and amortization expense incurred during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017 (dollars in thousands):

	Nine Months Ended September 30,		Increase (Decrease)	
Same store (placed in service - 2016 and prior)	2018	2017	Amount	%
AL/MC/CCRC properties	$ 9,505	$ 8,882	$ 623	7.0 %
IL properties	47,097	46,515	582	1.3 %
Net lease properties	10,187	9,777	410	4.2 %
Properties placed in service - 2017	15,049	3,610	11,439	316.9 %
Properties sold	105	439	(334)	(76.1)%
Total depreciation and amortization expense	$ 81,943	$ 69,223	$ 12,720	18.4 %

Depreciation and amortization expense increased $12.7 million, primarily as a result of real estate portfolios acquired during 2017 and capital improvements funded on same store portfolios.

Impairment Loss

During the nine months ended September 30, 2018, impairment loss of $5.2 million was recorded consisting of $2.8 million related to a property located in Franklin, Michigan within the Fountains portfolio, as a result of estimating the fair value of the property upon its reclassification to held for sale and $2.4 million related to a property located in Clinton, Connecticut within the Peregrine net lease portfolio, due to deteriorating operating results of the tenant resulting in failure to remit rental payments. There was no impairment losses recorded for the nine months ended September 30, 2017.

Other Income (Loss)

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

During the nine months ended September 30, 2017, unrealized gain of $1.1 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 nine months ended September 30, 2018 as a result of the disposal of the investment.

Realized Gain (Loss) on Investments and Other

Realized gain (loss) on investments and other increased $4.1 million as a result of the recognition of a gain on the sale of our investment in the Freddie Mac securitization, as well as gains on the sales of remainder interest units, net of a loss generated from the sale of the Fountains at Franklin property, in the Watermark Fountains portfolio.

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

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

	Nine Months Ended September 30,									
	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	$ 11	$ (1,186)	$ (1,304)	$ (2,660)	$ 1,315	$ 1,474	$ (159)	(10.8)%	$ 621	$ 985
Envoy	(29)	419	(300)	(1)	271	420	(149)	(35.5)%	283	427
Griffin - American	(3,692)	(5,795)	(13,500)	(15,228)	9,808	9,433	375	4.0 %	4,193	6,913
Espresso	6,331	(19,258)	2,296	(27,032)	4,035	7,774	(3,739)	(48.1)%	—	3,307
Trilogy	1,137	(5,414)	(11,244)	(17,637)	12,381	12,223	158	1.3 %	4,816	—
Subtotal	3,758	(31,234)	(24,052)	(62,558)	27,810	31,324	(3,514)	(11.2)%	9,913	11,632
Operator Platform[2]	149	—	—	—	149	—	149	100.0 %	107	—
Total	$ 3,907	$ (31,234)	$ (24,052)	$ (62,558)	$ 27,959	$ 31,324	$ (3,365)	(10.7)%	$ 10,020	$ 11,632

(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 increased by $35.1 million, primarily due to one-time events in our investment in the Espresso joint venture, which recorded a liability extinguishment gain during the nine months ended September 30, 2018 and a loan loss reserve during the three months ended September 30, 2017. The liability extinguishment gain recognized during the three months ended September 30, 2018 and the loan loss reserve recognized during the three months ended September 30, 2017 were $14.1 million and $15.8 million, respectively. For additional information, refer to "—Portfolio Management."

Equity in earnings, net of select revenues and expenses, decreased by $3.4 million primarily due to the Espresso portfolio, which has experienced three operator transitions, resulting in a decrease in revenues.

Income Tax Benefit (Expense)

Income tax expense for the nine months ended September 30, 2018 was $40,000 and related to our operating properties, which operate through a taxable REIT subsidiary structure. Income tax expense for the nine months ended September 30, 2017 was $56,000.

Liquidity and Capital Resources

Our current principal liquidity needs are to fund: (i) principal and interest payments on our borrowings and other commitments; (ii) operating expenses; (iii) capital expenditures, development and redevelopment activities; and (iv) distributions to our stockholders and 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.

On October 12, 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. The amended and restated Share Repurchase Program became effective October 29, 2018. Our board of directors considered various factors, including our current financial condition, liquidity sources and capital needs, and believes that limiting repurchases will permit us to preserve and deploy capital better aligned with the long-term interests of our stockholders.

We currently believe that our capital resources are sufficient to meet our capital needs. If the performance of our investments falls below our expectations or we are unable to execute our financing strategy, we may be unable to pay distributions to our stockholders and repurchase shares consistent at current levels, or at all, and may be required to sell assets. For additional information regarding our liquidity needs and sources of liquidity, see below. As of November 8, 2018, we had $79.4 million of unrestricted cash.

Use of Liquidity

Borrowings and Other Commitments

Our commitments generally include principal and interest payments on our borrowings, including the obligations of our unconsolidated joint ventures. Borrowings that are maturing in our unconsolidated joint ventures may require us to fund additional contributions, if favorable refinancing is not obtained.

In particular, our Griffin-American joint venture has $1.85 billion of non-recourse mortgage debt on certain properties in the joint venture that matures in December 2019. On November 9, 2018, the Griffin-American joint venture repaid in full the $100.5 million floating rate component of this debt, primarily with proceeds received from a refinancing of a select portfolio of medical office buildings. Our 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 the remaining $1.75 billion fixed rate component of the debt, of which our proportionate share is approximately $300 million.

We use or have used our capital resources to make certain payments to our Advisor. 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.

Operating Expenses

In addition to our own operating expenses, as of September 30, 2018, we operated 63 properties, or 79.2% of our assets, excluding our unconsolidated ventures and properties designated held for sale, pursuant to management agreements, whereby we are directly exposed to various operational risks with respect to these healthcare properties. To the extent revenues are not sufficient to cover expenses at these properties, we will need to fund operating shortfalls.

Capital Expenditures, Development and Redevelopment Activities

The terms of our net leases generally obligate our tenants to pay all capital expenditures necessary to maintain and improve our net leased properties. However, from time to time, we may fund the capital expenditures for our net leased properties through loans or advances to the tenant, which may increase the amount of rent payable with respect to the properties in certain cases. We may also fund capital expenditures for which we may become responsible upon expiration of our net leases or in the event that our tenants are unable or unwilling to meet their obligations under those leases or capital expenditures related to operating properties.

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. In addition, from time to time, we may

engage in redevelopment projects with respect to our existing senior housing communities to maximize the value, increase operating income, maintain a market-competitive position, achieve property stabilization or change the primary use of the property.

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. In addition, we generally pay distributions on a monthly basis based on daily record dates. Refer to "Distributions Declared and Paid" for further information.

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. However, our board of directors may amend, suspend or terminate our Share Repurchase Program at any time, subject to certain notice requirements. Refer to Note 10, "Stockholders' Equity" and Note 15, "Subsequent Events" in our accompanying consolidated financial statements included in Part I, Item 1. "Financial Statements."

Sources of Liquidity

Disposition of Investments

We may, from time to time, consider dispositions of investments to provide an additional source of liquidity. During the nine months ended September 30, 2018, we sold our investment in the Freddie Mac securitization, generating net proceeds of $35.8 million, as well as an 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%.

Cash From Operations

Our investments generate cash, either from operations or as a return of our invested capital. We primarily generate revenue from net operating income of real estate properties, as well as interest income from our debt investment and distributions from our investments in unconsolidated ventures. This income is partially offset by interest expense associated with our borrowings.

The failure of any of our investments to perform consistent with our expectations may have a material adverse impact on our liquidity needs. In addition, we have significant joint ventures, with unconsolidated joint ventures and consolidated joint ventures representing 37.4% and 19.8%, respectively, of our total real estate equity investments as of September 30, 2018, and we may not be able to control the timing of distributions from these investments, if any.

Borrowings

We have various forms of asset-level financing. Refer to Note 7, "Borrowings" of Part I, Item 1. "Financial Statements" for further information.

In October 2017, we obtained our Sponsor Line, for up to $15.0 million at an interest rate of 3.5% plus LIBOR to provide additional short-term liquidity. Our Sponsor Line had an initial one year term, with an extension option of six months. 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 September 30, 2018, we had drawn and fully repaid $25.0 million under our Sponsor Line and we have not utilized our Sponsor Line in 2018.

In December 2017, we obtained our Corporate Facility for up to $25.0 million; subject to satisfaction of certain financial covenant conditions. Our 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 November 8, 2018.

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 September 30, 2018, our leverage was 61.8%. As of September 30, 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 70.2%.

Offering

From inception through November 8, 2018, we have raised total gross proceeds of $2.0 billion, including $225.3 million in DRP proceeds. We are no longer raising capital from our Offering and we have invested substantially all of the net proceeds from our Offering. Since the successful completion of our Offering, we have only been raising new equity capital through our DRP, and as such, do not expect significant new investment activity.

Cash Flows

The following presents a summary of our consolidated statements of cash flows for the nine months ended September 30, 2018 and 2017 (dollars in thousands):

	Nine Months Ended September 30,		
Cash flow provided by (used in):	**2018**	**2017**	**2018 vs. 2017 Change**
Operating activities	$ 20,000	$ 15,442	$ 4,558
Investing activities	34,691	(306,023)	340,714
Financing activities	(71,681)	94,704	(166,385)
Net increase (decrease) in cash, cash equivalents and restricted cash	$ (16,990)	$ (195,877)	$ 178,887

Nine Months Ended September 30, 2018 compared to September 30, 2017

Operating Activities

Net cash provided by operating activities was $20.0 million for the nine months ended September 30, 2018 compared to $15.4 million for the nine months ended September 30, 2017. The increase of $4.6 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 $34.7 million for the nine months ended September 30, 2018 compared to net cash used of $306.0 million for the nine months ended September 30, 2017. Cash flows provided by investing activities for the nine months ended September 30, 2018 are primarily attributable to 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 nine months ended September 30, 2017 primarily relate to the acquisition of three operating real estate portfolios and additional capital contributions to joint venture investments.

The following table presents capital improvements made during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017, excluding capital improvements made at our unconsolidated ventures (dollars in thousands):

	Nine Months Ended September 30,		
Capital Improvements	**2018**	**2017**	**2018 vs. 2017 Change**
Development projects	$ 3,320	$ 1,247	$ 2,073
Recurring	16,683	12,216	4,467
Total improvement of operating real estate investments	$ 20,003	$ 13,463	$ 6,540

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 $71.7 million for the nine months ended September 30, 2018 compared to cash flow provided by financing activities of $94.7 million for the nine months ended September 30, 2017. The change of $166.4 million was primarily attributable to payments of dividends and share repurchases, with no proceeds obtained from real estate financings during the nine months ended September 30, 2018.

Off-Balance Sheet Arrangements

As of September 30, 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 Part I. Item 1. "Financial Statements" for a discussion of such unconsolidated ventures in our consolidated financial statements. In each case, our exposure to loss is limited to the carrying value of our investment.

Inflation

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

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

Related Party Arrangements

Advisor

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

In December 2017, our advisory agreement was amended with changes to the asset management and acquisition fee structure as further described below. In June 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.

Fees to Advisor

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).

In December 2017, our advisory agreement was amended. 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).

In December 2017, our advisory agreement was amended. 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.

Reimbursements to Advisor

Operating Costs

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

Summary of Fees and Reimbursements

The following table presents the fees and reimbursements incurred to our Advisor for the nine months ended September 30, 2018 and the amount due to related party as of September 30, 2018 and December 31, 2017 (dollars in thousands):

Type of Fee or Reimbursement	Financial Statement Location	Due to Related Party as of December 31, 2017	Nine Months Ended September 30, 2018		Due to Related Party as of September 30, 2018 (Unaudited)
			Incurred	Paid	
Fees to Advisor Entities					
Asset management[1]	Asset management and other fees-related party	$ —	$ 17,853	$ (17,853) [2]	$ —
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	8,621	(7,168)	2,491
Total		$ 1,046	$ 26,466	$ (25,021)	$ 2,491

(1) Includes $7.5 million paid in shares of our common stock.
(2) From inception through September 30, 2018, our Advisor waived $0.3 million of acquisition fees related to healthcare-related securities. We did not incur any disposition fees during the nine months ended September 30, 2018, nor were any such fees outstanding as of December 31, 2017.
(3) As of September 30, 2018, our Advisor does not have any unreimbursed operating costs which remain eligible to be allocated to us.

Issuance of Common Stock to our Advisor

Pursuant to the December 2017 amendment of our advisory agreement, for the nine months ended September 30, 2018, we issued 0.9 million shares totaling $7.5 million to an affiliate of our Advisor as part of its asset management fee.

Investments in Joint Ventures

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

Portfolio	Partner(s)	Acquisition Date	Ownership
Eclipse	Colony Capital/ Formation Capital, LLC	May-2014	5.6%
Griffin-American	Colony Capital	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 Griffin-American Healthcare REIT III, Inc., or 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. For additional information, refer to Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments."

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 nine months ended September 30, 2018.

Recent Developments

Distribution Reinvestment Plan

For the period from October 1, 2018 through November 8, 2018, we issued 0.6 million shares pursuant to our DRP, representing gross proceeds of $4.9 million.

Share Repurchases

On October 12, 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. The amended and restated Share Repurchase Program became effective October 29, 2018.

For the period from October 1, 2018 through November 8, 2018, we repurchased 0.2 million shares for a total of $2.1 million or a price of $8.50 per share under our Share Repurchase Program. We fund repurchase requests received during a quarter with cash received from proceeds pursuant to the DRP. Prior to the approval of the amended and restated Share Repurchase program, we had a total of 12.0 million shares, or $101.8 million, based on our most recently published estimated value per share of $8.50, in

unfulfilled repurchase requests. Refer to Item 1. "Financial Statements," Note 10, "Stockholders' Equity" for additional information regarding our Share Repurchase Program.

Distributions

During the period from October 1, 2018 through November 8, 2018, our board of directors approved a daily cash distribution of $0.000924658 per share of common stock for the months ended November 30, 2018 and December 31, 2018. Distributions are generally paid to stockholders on the first business day of the month following the month for which the distribution was accrued.

Dispositions

Trilogy

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 Griffin-American Healthcare REIT IV, Inc., a REIT sponsored by AHI. The sale was approved by our board of directors, including all of its independent directors.

Envoy

In October 2018, the Envoy joint venture, of which we own 11.4%, executed a purchase and sale agreement totaling $116.0 million for the remaining 11 properties in the portfolio. Our proportionate share of net proceeds, after debt repayment and transaction costs, is anticipated to be approximately $5.0 million.

Non-GAAP Financial Measures

Funds from Operations and Modified Funds from Operations

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

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

Acquisition fees paid to our Advisor in connection with the origination and acquisition of debt investments are amortized over the life of the investment as an adjustment to interest income under U.S. GAAP and are therefore 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. Acquisition fees are paid in cash that would otherwise be available to distribute to our stockholders. In the event that proceeds from our Offering are not sufficient to fund the payment or reimbursement of acquisition fees and expenses to our Advisor, such fees would be paid from other sources, including new financing, operating cash flow, net proceeds from the sale of investments or from other cash flow. We believe that acquisition fees incurred by us negatively impact our operating performance during the period in which such investments are originated or acquired by reducing cash flow and therefore the potential distributions to our stockholders. 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, and as a result, the impact of acquisition fees to our operating performance and cash flow would be minimal. In December 2017, our advisory agreement was amended. Effective January 1, 2018, our Advisor no longer receives an acquisition fee in connection with our acquisition of real estate properties or debt investments.

Acquisition fees and expenses paid to our Advisor and third parties in connection with the acquisition of equity investments are generally considered expenses and are included in the determination 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. Such fees and expenses will not be reimbursed by our Advisor or its affiliates and third parties, and therefore, if there

are no further proceeds from the sale of shares of our common stock to fund future acquisition fees and expenses, 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. All paid and accrued acquisition fees and expenses will have negative effects on future distributions to stockholders and cash flow generated by us, unless earnings from operations or net sales proceeds from the disposition of other properties are generated to cover the purchase price of the property, these fees and expenses and other costs related to such property.

Due to certain of the unique features of publicly-registered, non-traded REITs, the Institute for Portfolio Alternatives, or 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 U.S. Securities and Exchange Commission, or SEC, nor any other regulatory body has approved the acceptability of the adjustments that we use to calculate MFFO. In the future, the SEC or another regulatory body may decide to standardize permitted adjustments across the non-listed REIT industry and we may need to adjust our calculation and characterization of MFFO.

MFFO is a metric used by management to evaluate our future operating performance once our organization and offering and acquisition and development stages are complete and is not intended to be used as a liquidity measure. Although management uses the MFFO metric to evaluate future operating performance, this metric excludes certain key operating items and other adjustments that may affect our overall operating performance. MFFO is not equivalent to net income (loss) as determined under U.S. GAAP. In addition, MFFO is not a useful measure in evaluating net asset value, since 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 requires us to consolidate the whole securitization trust and eliminate the Class B securities. We believe that reporting the effective yield in MFFO provides better insight to the expected contractual cash flows and is more consistent with our review of operating performance. The effective yield computation under U.S. GAAP and MFFO is 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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Funds from operations:				
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (6,604)	$ (44,390)	$ (74,366)	$ (93,062)
Adjustments:				
Depreciation and amortization	25,629	24,454	81,943	69,223
Impairment losses of depreciable real estate	—	—	4,514	—
Depreciation and amortization related to unconsolidated ventures	8,941	9,527	25,676	30,713
Depreciation and amortization related to non-controlling interests	(170)	(147)	(629)	(334)
Impairment loss on real estate related to non-controlling interests	—	—	(62)	—
Realized (gain) loss from sales of property	(63)	—	(63)	—
Realized gain (loss) from sales of property related to non-controlling interests	2	—	2	—
Realized (gain) loss from sales of property related to unconsolidated ventures	(9)	(734)	2,713	(1,281)
Impairment losses of depreciable real estate held by unconsolidated ventures	990	798	1,316	4,328
Funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	$ 28,716	$ (10,492)	$ 41,044	$ 9,587
Modified funds from operations:				
Funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	$ 28,716	$ (10,492)	$ 41,044	$ 9,587
Adjustments:				
Acquisition fees and transaction costs	—	8,380	796	14,107
Straight-line rental (income) loss	(248)	(324)	628	(1,287)
Amortization of premiums, discounts and fees on investments and borrowings	1,184	1,088	3,588	3,114
Amortization of discounts on healthcare-related securities	—	389	314	1,122
Adjustments related to unconsolidated ventures[1]	(17,159)	21,056	(5,653)	28,798
Adjustments related to non-controlling interests	10	(119)	(29)	(132)
Realized (gain) loss on investments and other	(663)	—	(4,158)	(118)
Unrealized (gain) loss on senior housing mortgage loans and debt held in securitization trust	—	(384)	—	(1,108)
Impairment of assets other than real estate	—	—	725	—
Modified funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	$ 11,840	$ 19,594	$ 37,255	$ 54,083

(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 pay 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 each of the nine months ended September 30, 2018. Distributions are generally paid to stockholders on the first business day of the month following the month for which the distribution has accrued.

The following table presents distributions declared for the nine months ended September 30, 2018 and year ended December 31, 2017 (dollars in thousands):

	Nine Months Ended September 30, 2018		Year Ended December 31, 2017	
Distributions[1]				
Cash	$ 24,086		$ 58,766	
DRP	23,165		67,037	
Total	$ 47,251		$ 125,803	
Sources of Distributions[1]				
FFO[2]	$ 41,044	87%	$ 16,831	13%
Offering proceeds - Other	6,207	13%	108,972	87%
Total	$ 47,251	100%	$ 125,803	100%
Cash Flow Provided by (Used in) Operations	$ 20,000		$ 7,858	

(1) Represents distributions declared for such period, even though such distributions are actually paid to stockholders the month following such period.
(2) From inception of our first investment on April 5, 2013 through September 30, 2018, we declared $412.4 million in distributions. Cumulative FFO for the period from April 5, 2013 through September 30, 2018 was $55.7 million.

For the nine months ended September 30, 2018 and year ended December 31, 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

Changes in interest rates may affect our net income as a result of changes in interest expense incurred in connection with floating-rate borrowings used to finance our equity investments. As of September 30, 2018, 11.8% of our total borrowings were floating rate liabilities and none of our real estate debt investments were floating rate investments. Of the floating rate liabilities outstanding as of September 30, 2018, 100.0% related to our directly owned operating real estate equity investments' mortgage notes payable. As of September 30, 2018, we had two lines of credit which carry floating interest rates. There were no outstanding liabilities under either line of credit as of September 30, 2018.

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

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

The interest rate on our floating-rate liabilities is a fixed spread over an index such as LIBOR and typically reprices every 30 days based on LIBOR in effect at the time. As of September 30, 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 September 30, 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 September 30, 2018, we had one fixed-rate debt investment with a carrying value of $74.7 million.

Credit Spread Risk

The value of our fixed and floating-rate investments also changes with market credit spreads. This means that when market-demanded risk premium, or credit spread, increases, the value of our fixed and floating-rate assets decrease and vice versa. Fixed-rate assets are valued based on a market credit spread over the rate payable on fixed-rate U.S. Treasuries of like maturity. This means that their value is dependent on the yield demanded on such assets by the market, based on their credit relative to U.S. Treasuries. The floating-rate debt and securities investments are valued based on a market credit spread over the applicable LIBOR. Demand for a higher yield on investments results in higher or "wider" spread over the benchmark rate (usually the applicable U.S. Treasury yield) to value these assets. Under these conditions, the value of our portfolio should decrease. Conversely, if the spread used to value these assets were to decrease or "tighten," the value of these assets should increase.

Credit Risk

We are subject to the credit risk of the operators or 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.

The following table presents the operators and tenants of our properties, excluding properties owned through unconsolidated joint ventures as of September 30, 2018 (dollars in thousands):

				Nine Months Ended September 30, 2018	
Operator / Tenant		**Properties Under Management**	**Units Under Management[1]**	**Property and Other Revenues**	**% of Total Property and Other Revenues**
Watermark Retirement Communities		29	5,225	$ 115,463	52.4 %
Solstice Senior Living	(2)	32	4,000	79,350	36.0 %
Avamere Health Services	(3)	5	453	12,541	5.7 %
Arcadia Management		4	572	7,961	3.6 %
Integral Senior Living	(2)	3	162	3,852	1.7 %
Peregrine Senior Living		2	114	1,114	0.5 %
Senior Lifestyle Corporation	(4)	2	115	(195)	(0.1)%
Other	(5)	—	—	464	0.2 %
Total		77	10,641	$ 220,550	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.
(5) Represents interest income earned on corporate-level cash accounts.

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 nine months ended September 30, 2018, the Espresso mezzanine loan and the Freddie Investment contributed 100.0% of interest income. As of September 30, 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 September 30, 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.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

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

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

Internal Control over Financial Reporting

Changes in Internal Control over Financial Reporting.

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

PART II. Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as filed with the SEC on April 2, 2018, except as noted below.

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

Our organizational documents permit us to pay distributions from any source, including Offering proceeds, borrowings or sales of assets. We have not established a limit on the amount of proceeds we may use to fund distributions. We may not generate sufficient cash flow from operations to fund distributions. For the nine months ended September 30, 2018, we declared distributions of $47.3 million compared to cash provided by operating activities of $20.0 million. For the declared distributions during the nine months ended September 30, 2018, $27.3 million, or 57.7%, of the distributions declared were paid using sources other than cash flow from operations. For the year ended December 31, 2017, we declared distributions of $125.8 million compared to cash provided by operating activities of $7.9 million. For the declared distributions during the year ended December 31, 2017, $117.9 million, or 93.8%, of the distributions declared were paid using sources other than cash flow from operations. If we pay distributions from sources other than our cash flow provided by operations, we will have less cash available for investments and your overall return may be reduced.

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We adopted our Share Repurchase Program effective August 7, 2012, as most recently amended in October 2018, which enables stockholders to sell their shares to us in limited circumstances. We may not repurchase shares unless a stockholder has held shares for at least one year. However, we may repurchase shares held for less than one year 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.

On December 20, 2017, our Board approved the following amendments to our Share Repurchase Program:

- Limit the amount of shares that may be repurchased pursuant to our 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 our common stock outstanding during the prior calendar year, less shares repurchased during the current calendar year, or (2) the net proceeds received during the calendar quarter in which such repurchase requests were made from the sale of shares pursuant to our 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 net asset value per share, which is currently $8.50 and (b) for all other shares, 90.0% of the 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, we first repurchased shares submitted in connection with a stockholder's qualifying death or disability, and thereafter repurchased shares pro rata, and we sought to honor any unredeemed shares in a future quarter (unless the stockholder withdrew its request).

To the extent that the aggregate DRP proceeds are less than the amount of repurchase requests, our board of directors may, if it determines in its sole discretion to accommodate all or a portion of the excess repurchase requests, choose to use other sources of funds.

For the nine months ended September 30, 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				
Total	3,028,502	$ 7.86	3,028,502	

(1) Subject to funds being available, the limits under our Share Redemption Program were amended in December 2017, as described in further detail above.

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. Prior to the approval of the amended and restated Share Repurchase program, we had a total of 12.0 million shares, or $101.8 million, based on our most recently published estimated value per share of $8.50, in unfulfilled repurchase requests. For additional information, refer to Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments.”

Unregistered Sales of Equity Securities

On September 28, 2018, we issued 294,118 shares of common stock at $8.50 per share to our Advisor as part of its asset management fee, pursuant to our advisory agreement. These shares were issued pursuant to an exemption from registration under Section 4(a)(2) of the Securities Act for transactions not involving a public offering.

Item 4. Mine Safety Disclosures

Not applicable

Item 6. Exhibits

Exhibit Number	Description of Exhibit
3.1	Articles of Amendment and Restatement of NorthStar Healthcare Income, Inc. (filed as Exhibit 3.1 to Pre-Effective Amendment No. 7 to the Company's Registration Statement on Form S-11 (File No. 333-170802) and incorporated herein by reference)
3.2	Certificate of Correction of the Articles of Amendment and Restatement of NorthStar Healthcare Income, Inc. (filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 and incorporated herein by reference)
3.3	Fourth Amended and Restated Bylaws of NorthStar Healthcare Income, Inc. (filed as Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 and incorporated herein by reference)
4.1	Amended and Restated Distribution Reinvestment Plan (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on April 8, 2016 and incorporated herein by reference)
31.1*	Certification by the Chief Executive Officer pursuant to 17 CFR 240.13a-14(a)/15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification by the Chief Financial Officer pursuant to 17 CFR 240.13a-14(a)/15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification by the Chief Executive Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification by the Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101*	The following materials from the NorthStar Healthcare Income, Inc. Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of September 30, 2018 (unaudited) and December 31, 2017; (ii) Consolidated Statements of Operations (unaudited) for the three and nine months ended September 30, 2018 and 2017; (iii) Consolidated Statements of Comprehensive Income (Loss) (unaudited) for the three and nine months ended September 30, 2018 and 2017; (iv) Consolidated Statements of Equity (unaudited) for the nine months ended September 30, 2018 and 2017; (v) Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2018 and 2017; and (vi) Notes to Consolidated Financial Statements (unaudited)

* Filed herewith

SIGNATURES

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

NorthStar Healthcare Income, Inc.

Date: November 9, 2018

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

By: /s/ FRANK V. SARACINO
Name: Frank V. Saracino
Title: *Chief Financial Officer and Treasurer*

Exhibit 31.1

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

I, Ronald J. Jeanneault, certify that:

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

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

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

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

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

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

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

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

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

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

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

By: /s/ RONALD J. JEANNEAULT

Name: Ronald J. Jeanneault

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

Date: November 9, 2018

Exhibit 31.2

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

I, Frank V. Saracino, certify that:

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

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

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

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

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

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

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

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

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

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

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

By: /s/ FRANK V. SARACINO
Name: Frank V. Saracino
Title: *Chief Financial Officer and Treasurer*
Date: November 9, 2018

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of NorthStar Healthcare Income, Inc. (the "Company") for the quarter ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Ronald J. Jeanneault, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

By: /s/ RONALD J. JEANNEAULT
Ronald J. Jeanneault
Chief Executive Officer, President and Vice Chairman
Date: November 9, 2018

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

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

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of NorthStar Healthcare Income, Inc. (the "Company") for the quarter ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Frank V. Saracino, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

By: /s/ FRANK V. SARACINO
Frank V. Saracino
Chief Financial Officer and Treasurer
Date: November 9, 2018

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

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