2014
Annual Report

NorthStar
HEALTHCARE INCOME

"2014 was a transformational year for NorthStar Healthcare, as we raised over $868 million through our initial public offering while closing over $1.0 billion in healthcare equity and debt investments...NorthStar Healthcare's strong results reflect the sound execution of our business plan, our management team's extensive healthcare industry experience and our comprehensive investment underwriting process."

To Our Stockholders,

On behalf of your Board of Directors and management team, we at NorthStar Healthcare Income, Inc. (NorthStar Healthcare or the Company) are very pleased to share with you the tremendous growth and progress the Company has made in 2014 and to date in 2015. Having successfully completed our $1.1 billion initial public offering in January 2015, we continue to build a diversified portfolio of equity and debt investments in healthcare real estate, with a focus on the mid-acuity senior housing sector, including assisted living, memory care, skilled nursing and independent living facilities. As a complement to our core strategy, we may also pursue equity and debt investments in facilities that rely on public pay patients and other healthcare property types, including medical office buildings and rehabilitation facilities both domestically and internationally.

NorthStar Healthcare remains focused on achieving its investment objectives to pay attractive and consistent cash distributions and to preserve and protect your capital, while also seeking to realize capital appreciation in our portfolio. 2014 was a transformational year for NorthStar Healthcare, as we raised over $868 million through our initial public offering while closing over $1.0 billion in healthcare equity and debt investments. In February 2015, given strong demand for our initial public offering and a compelling healthcare investment environment, NorthStar Healthcare successfully launched a $700 million follow-on public offering, which was declared effective by the Securities and Exchange Commission on February 6, 2015. In connection with our follow-on offering, NorthStar Healthcare engaged Robert A. Stanger & Co., Inc., a leading third-party independent valuation and consulting firm, to conduct a valuation of our assets and liabilities as of December 31, 2014, which was one of the factors considered by our Board of Directors in approving a new offering price of $10.20 per share.

As of March 31, 2015, NorthStar Healthcare's portfolio consists of 20 equity and debt investments totaling $1.1 billion, allocated across a diversified portfolio of assisted living facilities (34%), medical office buildings (29%), skilled nursing facilities (13%) and healthcare real estate debt investments (13%). From April 2013 through March 31, 2015, NorthStar Healthcare has provided a 6.75% annualized distribution, offering stockholders a consistent and appealing income stream with possible upside through the potential appreciation of our assets. These strong results reflect the sound execution of our business plan, our management team's extensive healthcare industry experience, access to deal flow and our comprehensive investment underwriting process.

NorthStar Healthcare's investment pipeline is robust and we plan to remain opportunistic in pursuing a broad range of investments with attractive risk-adjusted return profiles across our targeted healthcare real estate investments. In recent months we have entered into a number of term sheets and purchase agreements to deploy substantially all of our equity capital into a number of transactions backed by large, diversified healthcare portfolios. We expect these transactions will allow us to deploy significant capital into accretive transactions, adding geographic and asset class diversity to our growing portfolio. Although there can be no assurance that these investments close on the terms anticipated, or at all, we expect that these transactions will close by the third quarter 2015.

The relationship with our sponsor, NorthStar Asset Management Group Inc. (NYSE: NSAM), a publicly traded global asset management firm with $22 billion of assets under management, including the experience and relationships of NSAM's management team and professionals, continues to provide us strong benefits, including access to best-in-class transaction sourcing, portfolio management capabilities and institutional financing relationships. For example, in December 2014, we completed a $187 million joint venture investment with NorthStar Realty Finance Corp. (NYSE: NRF), acquiring an approximate 14% interest in the $4 billion healthcare portfolio previously owned by Griffin-American Healthcare REIT II, Inc., one of the largest real estate transactions of 2014. The public company resources of both NSAM and NRF have provided NorthStar Healthcare with proprietary access to exclusive transactions normally available to only the largest real estate investors, which we expect will continue to benefit NorthStar Healthcare in the future.

Overall, 2014 was a very successful and productive year for NorthStar Healthcare. As the Company continues to progress through its life cycle, our board and management team remain committed to achieving our investment objectives through our opportunistic investment strategy and comprehensive portfolio management capabilities, all with the long-term goal of maximizing stockholder value.

We appreciate your investment and continued confidence in NorthStar Healthcare.

Sincerely,

Ronald J. Jeanneault
Chief Executive Officer & President

Daniel Gilbert
Executive Chairman

James F. Flaherty III
Vice Chairman

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NORTHSTAR HEALTHCARE INCOME, INC.

2014 ANNUAL REPORT

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Upon written request, we will provide, without charge, a copy of our Annual Report on Form 10-K, including the financial statements and financial statement schedules required to be filed therewith. All such requests should be submitted to NorthStar Healthcare Income, Inc., 399 Park Avenue, 18th Floor, New York, New York 10022, Attn: General Counsel.

OTHER FINANCIAL INFORMATION

Information included herein was excerpted from our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 as filed with the U.S. Securities and Exchange Commission (the ‘‘SEC’’) on March 27, 2015 (the ‘‘2014 Form 10-K’’). Certain portions of the 2014 Form 10-K were not reprinted for inclusion in this Annual Report to stockholders in accordance with SEC regulations. The 2014 Form 10-K may be viewed in its entirety on our website at *www.northstarreit.com/healthcare*. References herein to Parts or Items are references to such sections of the 2014 Form 10-K.

For information regarding the independent directors' report on the fairness of all transactions involving us, our directors, our advisor, our sponsor and any affiliate of such parties, please see "Certain Relationships and Related Transactions" of our 2015 proxy statement.

FORWARD-LOOKING STATEMENTS

This Annual Report 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 successfully complete our follow-on continuous, public offering, our ability to pay 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, particularly given the economic environment. 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;
- our ability to successfully raise capital in our follow-on continuous, public offering;
- our ability to deploy capital quickly and successfully and achieve a diversified portfolio consistent with our target asset classes;
- our dependence on the resources and personnel of our advisor, our sponsor and their affiliates, including our advisor’s ability to source and close on attractive investment opportunities on our behalf;
- the performance of our advisor, our sponsor and their affiliates;
- our liquidity and access to capital;
- our use of leverage;
- our ability to close on the recent commitments to acquire healthcare real estate investments on the terms contemplated or at all, and any related termination fees incurred to the extent such investments are not closed;
- 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;
- the impact of NorthStar Realty Finance Corp.’s spin-off of its asset management business, which included our advisor;
- our advisor’s and its affiliates’ ability to attract and retain sufficient personnel to support our growth and operations;
- the impact of market and other conditions influencing the availability of equity versus debt investments and 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;
- changes in our business or investment strategy;
- 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 and the mortgage loans underlying the healthcare-related commercial mortgage backed securities in which we invest;
- changes in the value of our portfolio;
- 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;
- our ability to finance our assets on terms that are acceptable to us, if at all, including our ability to complete securitization financing transactions;
- environmental compliance costs and liabilities;
- whether we will realize the benefits of the long-term partnership between our sponsor and James F. Flaherty III, our Vice Chairman;
- increased rates of loss or default and decreased recovery on our investments;
- the degree and nature of our competition;
- the effectiveness of our risk and portfolio management systems;
- failure to maintain effective internal controls and disclosure controls and procedures;
- regulatory requirements with respect to our business and the healthcare industry generally, as well as the related cost of compliance;
- legislative and regulatory changes, including changes to laws governing the taxation of REITs;
- our ability to qualify and 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;
- availability of opportunities to acquire equity, debt and securities investments in the healthcare real estate sector;
- general volatility in capital markets;
- the adequacy of our cash reserves and working capital; and
- other risks associated with investing in our targeted investments, including changes in our industry, interest rates, the securities markets, the general economy or the capital markets and real estate markets specifically.

The foregoing list of factors is not exhaustive. All forward-looking statements included in this Annual Report are based on information available to us on the date hereof and we are under no duty to update any of the forward-looking statements after the date of this report to conform these statements to actual results.

Factors that could have a material adverse effect on our operations and future prospects are set forth in our filings with the United States Securities and Exchange Commission, or the SEC, including the “Risk Factors” in our 2014 Form 10-K beginning on page 15. The risk factors set forth in our filings with the SEC could cause our actual results to differ significantly from those contained in any forward-looking statement contained in this report.

BUSINESS

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

Overview

NorthStar Healthcare Income, Inc. 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, predominantly in the United States, which we define as assisted living, or ALF, memory care, or MCF, skilled nursing, or SNF, and independent living facilities, or ILF, that have an emphasis on private pay patients although many of these facilities may also rely on public pay patients. We may also invest in equity and debt investments in other healthcare property types, including medical office buildings, or MOB, hospitals and rehabilitation facilities. We may also invest internationally. In addition, we may acquire healthcare-related securities. 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 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.

Our equity investments are generally in the form of lease or management transactions whereby we purchase a property and enter into a long-term lease or management agreement with an operator responsible for contractual payments to us. We enter into structures permitted by the REIT Investment Diversification and Empowerment Act of 2007, or RIDEA, whereby we participate directly in the operational cash flow of a property. Our debt investments generally consist of first mortgage loans, subordinate mortgages, mezzanine loans, preferred equity investments and participations in such investments.

We are externally managed and have no employees. Prior to June 30, 2014, we were managed by an affiliate of NorthStar Realty Finance Corp. (NYSE: NRF), or NorthStar Realty. Effective June 30, 2014, NorthStar Realty spun-off its asset management business into a separate publicly traded company, NorthStar Asset Management Group Inc. (NYSE: NSAM), or our Sponsor. Our Sponsor and its affiliates provide asset management and other services to us, NorthStar Realty, other sponsored public non-traded companies and any other companies our Sponsor and its affiliates may manage in the future, or collectively the NSAM Managed Companies, both in the United States and internationally. Concurrent with the spin-off, affiliates of our Sponsor entered into a new advisory agreement with us and each of the other NSAM Managed Companies. Pursuant to our advisory agreement, NSAM J-NSHC Ltd, an affiliate of our Sponsor, or our Advisor, agreed to manage our day-to-day operations on terms substantially similar to those set forth in our prior advisory agreement with NorthStar Healthcare Income Advisor, LLC, or our Prior Advisor. References to our Prior Advisor herein refer to the services performed by and fees paid and accrued to our Prior Advisor during the period prior to June 30, 2014. The spin-off of NorthStar Realty's asset management business had no impact on our operations.

Our primary business objectives are to make investments in our targeted assets that will generate attractive risk-adjusted returns, stable cash flow for distributions and provide downside protection to our stockholders. We will also seek to realize growth in the value of our real estate equity investments through appreciation and/or by timing their sale to maximize value. We believe that our Advisor and its affiliates have a platform that derives a competitive advantage from the combination of experience, a proven track record of successfully managing public companies, deep industry relationships and market leading real estate credit underwriting and capital markets expertise which enables us to manage credit risk across our investments as well as to structure and finance our assets efficiently. We believe that our targeted investment types are complementary to each other due to their overlapping sources of investment opportunities, common reliance on real estate fundamentals and ability to apply similar portfolio management and servicing skills to maximize value and to protect capital. Given the present dynamics in the healthcare real estate sector, we currently believe the most compelling investment opportunities are real estate equity.

We initially registered to offer up to 100.0 million shares pursuant to our primary offering, or our Initial Primary Offering, and up to 10.5 million shares pursuant to our distribution reinvestment plan, or our Initial DRP, which are herein collectively referred to as our Initial Offering. In December 2014, our board of directors authorized the reallocation of 8.6 million shares available under our Initial DRP to our Initial Primary Offering. On February 2, 2015, we successfully completed our Initial Offering by raising $1.1 billion.

On February 6, 2015, our registration statement on Form S-11 was declared effective by the Securities and Exchange Commission, or SEC, for a follow-on public offering, or our Follow-on Offering, of up to $700.0 million, which includes up to $500.0 million in shares pursuant to our follow-on primary offering, or our Follow-on Primary Offering, and up to $200.0 million in shares pursuant to our follow-on distribution reinvestment plan, or our Follow-on DRP. We reserve the right to reallocate shares of our common stock being offered between our Follow-on Primary Offering and our Follow-on DRP. We expect our Follow-on Offering to terminate on the earlier of two years following the effective date or once the maximum number of shares offered are sold. However, our board of directors may determine to terminate our Offering at any time. We began raising capital from our Follow-on Offering at the end of February 2015.

Our Initial Primary Offering and our Follow-On Primary Offering are collectively referred to as our Primary Offering and our Initial DRP and Follow-on DRP as our DRP. Additionally, our Primary Offering and our DRP are collectively referred to as our Offering.

NorthStar Realty Securities, LLC, or our Dealer Manager, formerly a subsidiary of NorthStar Realty that became a subsidiary of our Sponsor upon completion of the spin-off, serves as the dealer manager for our Primary Offering.

On February 11, 2013, we commenced operations by satisfying our minimum offering requirement in our Initial Primary Offering as a result of NorthStar Realty purchasing 222,223 shares of common stock for $2.0 million. From inception through March 23, 2015, we raised total gross proceeds of $1.1 billion pursuant to our Offering.

We use leverage as a part of our investment strategy. We may pursue a variety of financing arrangements such as mortgage notes, credit facilities, securitized financing transactions and other term borrowings with the goal to obtain non-recourse, non mark-to-market term liabilities to finance our assets, when possible. Currently, we have mortgage notes and a corporate credit facility agreement to finance real estate investments and first mortgage loans secured by healthcare real estate with an initial capacity of $100.0 million and with up to $200.0 million of potential capacity. As of December 31, 2014, we had no borrowings outstanding under our credit facility.

Our Investments

The following table presents our investments as of December 31, 2014 (dollars in thousands):

Investment Type:	Amount (1)	% of Total
Real estate equity (2) (3)		
ALF	$ 373,442	34.0%
MOB	313,034	28.5%
SNF	142,670	13.0%
ILF	60,926	5.6%
Hospitals	40,772	3.7%
MCF	20,998	1.9%
Total real estate equity	951,842	86.7%
Real estate debt		
First mortgage loans	25,887	2.4%
Mezzanine loans	120,000	10.9%
Total real estate debt	145,887	13.3%
Total investments	$ 1,097,729	100.0%

(1) Based on cost for real estate equity investments, which includes net purchase price allocation related to net intangibles, deferred costs, other assets, if any, and adjusted for subsequent capital expenditures. For real estate debt, based on principal amount.
(2) Classification based on predominant services provided, but may include other services.
(3) Includes our proportionate interest in real estate held through joint ventures for ALF, MOB, SNF and Hospitals of $679.8 million.

For financial information regarding our reportable segments, refer to Note 12. "Segment Reporting" in our accompanying consolidated financial statements included in "Financial Statements and Supplementary Data."

Underwriting Process

We use a rigorous investment and underwriting process that has been developed and utilized by our Advisor's and its affiliates' senior management team leveraging their extensive commercial and healthcare real estate expertise over many years and real estate cycles, which focuses on some or all of the following factors designed to ensure each investment is being evaluated appropriately: (i) a property's market, including applicable state regulations that may impact the local industry, local supply constraints, the quality and nature of the local workforce and prevailing local real estate values; (ii) fundamental analysis of underlying real estate, including operator rosters, lease terms, zoning, necessary licensing, operating costs and the asset's overall competitive position in the market; (iii) real estate market factors that may influence the economic performance of the investment including leasing conditions and overall competition; (iv) the operating expertise and financial strength and reputation of the borrower, operator/tenant or partner; (v) the cash flow in place and projected to be in place over the term of the investment and potential return; (vi) the appropriateness of the business plan and estimated costs associated with operator buildout, repositioning or capital improvements; (vii) an internal and third-party valuation of the property, the investment basis relative to the competitive set of comparable investments and the ability to liquidate an investment through a sale or refinancing; (viii) review of third-party reports including appraisals, engineering and environmental reports; (ix) physical inspections of properties; (x) the overall legal structure of the investment, contractual implications and the lenders' rights; and (xi) the tax and accounting impact.

For prospective equity investments that meet our Advisor's underwriting criteria, we determine the financial value of a potential long-term lease or management agreement based on our target long-term property capitalization rates and fixed charge coverage ratios. We compare the financial value to the replacement costs that we estimate by consulting with major healthcare construction contractors, engaging construction engineers or facility assessment consultants as appropriate, and reviewing recent cost studies. If a potential investment meets our Advisor's underwriting criteria, our Advisor will review the proposed transaction structure. For each prospective debt investment, our Advisor will evaluate the security, reserve requirements, cash flow sweeps, call protection and recourse provisions, as well as the asset's position within the overall capital structure and its rights in relation to other capital tranches. In addition, our Advisor analyzes each potential debt investment's risk-return profile and review financing sources, if applicable, to ensure that the investment fits within the parameters of financing facilities and to maximize performance of the underlying healthcare property collateral. We will not complete any investment until the successful completion of due diligence, which includes the satisfaction of all applicable elements of our investment and underwriting process and an environmental assessment of properties in which we intend to acquire an interest.

The following describes the major asset classes in which we may invest and actively manage to maximize value and to protect capital.

Real Estate Equity

Overview

Our real estate equity investment strategy is focused on acquiring healthcare properties or interests in healthcare properties, directly or through joint ventures, with a focus on the mid-acuity senior housing sector, predominantly in the United States, which we define as ALF, MCF, SNF and ILF, that have an emphasis on private pay patients although many of these facilities may also rely on public pay patients. We may also invest in equity investments in other healthcare property types, including MOB, hospitals and rehabilitation facilities. We may also invest internationally.

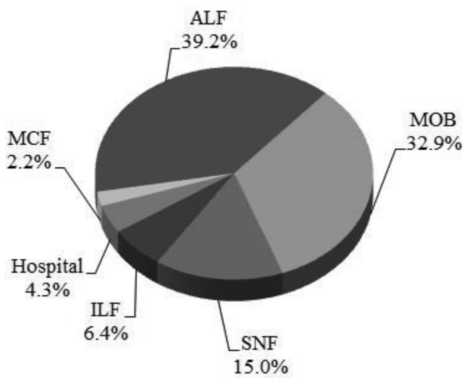
Our equity investments are generally in the form of lease or management transactions whereby we purchase a property and enter into a long-term lease or management agreement with an operator responsible for contractual payments to us. We enter into RIDEA structures whereby we participate directly in the operational cash flow of a property. Our real estate equity investments that operate under the RIDEA structure generate resident level income from short-term residential agreements and incur customary related operating expenses. Our equity investments typically have the potential to appreciate in value and therefore may help overcome our upfront fees and expenses.

We believe that mid-acuity senior housing facilities may provide an opportunity to generate attractive risk-adjusted returns. Mid-acuity senior housing facilities generally provide the broadest level of services to residents in a more cost-effective setting resulting in a longer length of stay for residents and less turnover in tenancy than can be provided in some other healthcare settings.

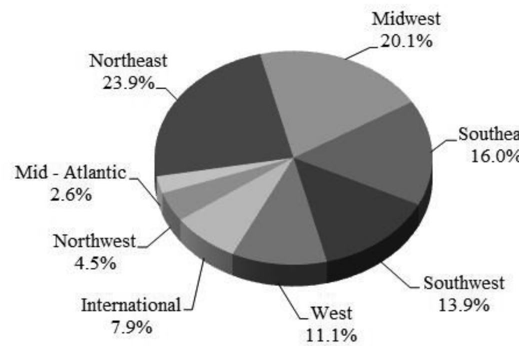
Our Portfolio

As of December 31, 2014, $951.8 million, or 86.7% of our assets, were invested in healthcare real estate equity. The following presents our 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 December 31, 2014 (dollars in thousands):

		Properties (2)							Primary	Ownership
Portfolio	**Amount (1)**	**MOB**	**ALF**	**SNF**	**ILF**	**Hospitals**	**MCF**	**Total**	**Locations**	**Interest**
Direct Investments (3)										
Watermark	$ 95,458	—	1	—	2	—	—	3	West/ Southwest/ Midwest	97.0%
Peregrine	36,498	—	2	—	—	—	2	4	Northeast/ Southeast	100.0%
Kansas City	15,000	—	2	—	—	—	—	2	Midwest	100.0%
Arbors	125,130	—	4	—	—	—	—	4	Northeast	100.0%
Total Direct Investments	272,086	—	9	—	2	—	2	13		
Joint Venture Investments (4)										
Eclipse	59,816	—	44	36	—	—	—	80	Various	5.6%
Envoy	16,472	—	—	14	—	—	—	14	Mid - Atlantic/ Northeast	11.4%
Griffin-American	603,468	146	91	45	—	14	—	296	Various	14.3%
Total Joint Venture Investments	679,756	146	135	95	—	14	—	390		
Grand Total	$ 951,842	146	144	95	2	14	2	403		

(1) Includes net purchase price allocation related to net intangibles, deferred costs, other assets, if any, and adjusted for subsequent capital expenditures.
(2) Classification based on predominant services provided, but may include other services.
(3) The properties were 100% leased to four operators, with a 12-year weighted average remaining lease term.
(4) Represents our proportionate interest in real estate assets held through unconsolidated joint ventures.

As of December 31, 2014, our unconsolidated joint venture investments included the following:

- Eclipse, a 5.6% interest in a $1.1 billion portfolio.
- Envoy, a 11.4% interest in a $145.0 million portfolio.
- Griffin-American, a 14.3% interest in a $4.1 billion portfolio.

Real Estate Debt

Overview

Our real estate debt investment strategy is focused on originating, acquiring and asset managing debt, secured by the same property types that we target for our real estate equity investments, including first mortgage loans, subordinate mortgage and mezzanine loans and participations in such loans and preferred equity interests.

We emphasize direct origination of our debt investments as this allows us a greater degree of control over how they are underwritten and structured and it provides us the opportunity to syndicate senior or subordinate interests in a loan, if desired.

Further, it facilitates a more direct relationship with our borrowers which helps us maintain a robust pipeline and provides an opportunity for us to earn origination and other fees.

Our Portfolio

As of December 31, 2014, $145.9 million, or 13.3% of our assets, were invested in real estate debt secured by healthcare facilities, consisting of four loans with an average investment size of $36.5 million. The weighted average extended maturity of our real estate debt portfolio is 4.4 years.

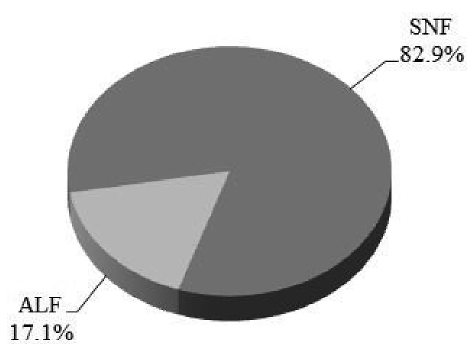
The following table presents a summary of our debt investments as of December 31, 2014 (dollars in thousands):

Investment Type:	Number	Principal Amount	Carrying Value	Allocation by Investment Type (1)	Weighted Average: Spread over LIBOR (2)	Weighted Average: Total Unleveraged Current Yield	Floating Rate as % of Principal Amount
First mortgage loans	2	$ 25,887	$ 25,887	17.7%	8.1%	8.3%	100.0%
Mezzanine loans	2	120,000	120,380	82.3%	10.2%	10.4%	100.0%
Total/Weighted average	4	$ 145,887	$ 146,267	100.0%	9.8%	10.0%	100.0%

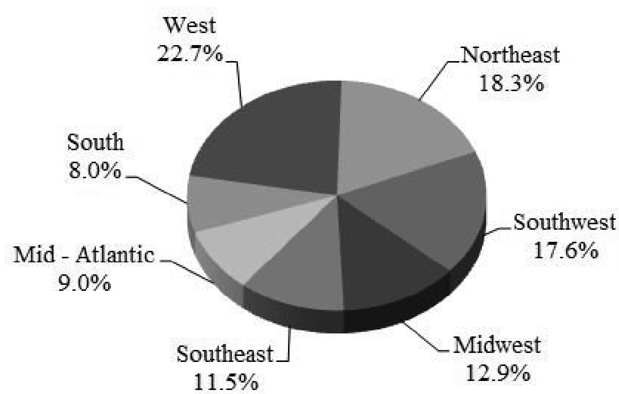
(1) Based on principal amount.
(2) Includes a fixed minimum LIBOR rate, or LIBOR floor, as applicable.

The following presents our real estate debt diversity across property type and geographic location based on principal amount:

Real Estate Debt by Property Type (1)



Real Estate Debt by Geographic Location



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

Healthcare-Related Securities

Our healthcare-related securities investment strategy may include investing primarily in commercial mortgage-backed securities, or CMBS, and may include other healthcare-related securities, backed primarily by loans secured by a variety of healthcare properties. We expect that this asset class will be less than 10% of our total portfolio and we currently do not have any securities investments.

Financing Strategy

We use asset-level financing as part of our investment strategy and we seek to match-fund our assets and liabilities by having similar lease terms or maturities and like-kind interest rate benchmarks (fixed or floating) to manage refinancing and interest rate risk and utilize non-recourse liabilities whenever possible. Our Advisor is responsible for managing such financing and interest rate risk on our behalf. We intend to pursue a variety of financing arrangements such as mortgage notes, credit facilities, securitization financing transactions and other term borrowings. We continue to seek and prefer long-term, non-recourse financing, including non mark-to-market financing that may be available through securitization. We may, as circumstances warrant, need to use some level of recourse financing.

In November 2013, we entered into a credit facility agreement with initial capacity of $25.0 million and up to $100.0 million of potential capacity to finance real estate investments and first mortgage loans secured by healthcare real estate. In

February 2014, we increased the initial capacity to $100.0 million with up to $200.0 million of potential capacity. As of December 31, 2014, we had no borrowings outstanding under the credit facility.

Although we have a limitation on the maximum leverage for our portfolio, which approximates 75% of the aggregate cost of our investments, including cash and excluding indirect leverage held through our unconsolidated joint venture investments, before deducting loan loss reserves, other non-cash reserves and depreciation, we do not have a targeted debt-to-equity ratio on an asset-by-asset basis, as we believe the appropriate leverage for the particular assets we finance depends on the specific credit characteristics of each asset. We use leverage for the sole purpose of financing our investments and diversifying our equity and we do not employ leverage to speculate on changes in interest rates. We also seek assignable financing when available. Once we have fully invested the proceeds of our Offering, we expect that our financing may approximate 50% of the cost of our investments, although it may exceed this level during our organization and offering stage.

Borrowing levels for healthcare real estate investments may change depending upon the nature of the assets and the related financing. Our financing strategy for our real estate is typically to use long-term, non-recourse mortgage loans. Our financing strategy for our debt and securities investments is dependent on our ability to obtain match-funded borrowings at rates that provide a positive net spread, generally using credit facilities and securitization financing transactions.

Portfolio Management

Our Advisor and its affiliates maintain a comprehensive portfolio management process that generally includes day-to-day oversight by the portfolio management and servicing team, regular management meetings and an exhaustive quarterly credit review process. These processes are designed to enable management to evaluate and proactively identify asset-specific credit issues and trends on a portfolio-wide basis. For our joint venture investments, we may rely on our healthcare-focused joint venture partners to provide certain asset management, property management and/or other services in managing our joint investments. Nevertheless, we cannot be certain that our Advisor's review will identify all issues within our portfolio due to, among other things, adverse economic conditions or events adversely affecting specific assets; therefore, potential future losses may also stem from investments that are not identified during these credit reviews. The portfolio management team uses many methods to actively manage our asset base to preserve our income and capital. Credit risk management is the ability to manage our assets in a manner that preserves principal/cost and income and minimizes credit losses that could decrease income and portfolio value. For real estate equity and debt investments, frequent re-underwriting and dialogue with borrowers/operators/managers/tenants/partners and regular inspections of our collateral and owned properties have proven to be an effective process for identifying issues early. In addition, our Advisor considers the impact of regulatory changes on operator performance and property values. During the quarterly credit review, or more frequently as necessary, investments are put on highly-monitored status and identified for possible loan loss reserves/asset impairment, as appropriate, based upon several factors, including missed or late contractual payments, significant declines in collateral performance and other data which may indicate a potential issue in our ability to recover our invested capital from an investment. Our Advisor uses an experienced portfolio management and servicing 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 real estate 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, allowance for future operator/tenant credit losses on billed and unbilled rents receivable based upon an evaluation of the collectability of such amounts.

Each of our debt investments is secured by healthcare real estate collateral and requires customized portfolio management and servicing strategies for dealing with potential credit situations. The complexity of 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 collateral and our borrowers'/operators' ability to further support the collateral. Further, many of our investments may be considered transitional in nature because the business plan is to re-position, re-develop or otherwise lease-up the property in order to improve the collateral. At the time of acquisition or origination, the underlying property revenues may not be sufficient to support lease payments, debt service or generate positive net operating income. The business plan may necessitate a lease reserve or interest or other reserves, whether through proceeds from our loans, borrowings, offering proceeds or otherwise, to support lease payments or debt service and capital expenditures during the implementation of the business plan. There may also be a requirement for the borrower, tenant/operator, guarantor or us, to refill these reserves should they become deficient during the applicable period for any reason.

As of December 31, 2014, all of our investments were performing in accordance with the contractual terms of their governing documents, in all material respects. 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 loan loss reserves/asset impairment, as appropriate, if required.

Independent Directors' Review of Our Policies

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

Regulation

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

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

We elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, commencing with our taxable year ended December 31, 2013. If we maintain our qualification as a REIT for federal income tax purposes, we will generally not be subject to federal income tax to the extent we distribute qualifying dividends to our stockholders in an amount equal to or greater than 90% of our REIT taxable income. If we fail to maintain our qualification as a REIT in any taxable year after electing REIT status, we will be subject to federal income tax on our taxable income at regular corporate income tax rates and will generally not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year in which our qualification is denied. Such an event could materially and adversely affect our net income and cash available for distribution. However, we believe that we are organized and expect to operate in a manner that enables us to qualify for treatment as a REIT for federal income tax purposes and we intend to continue to operate so as to remain qualified as a REIT for federal income tax purposes thereafter. In addition, we have healthcare properties owned through structures permitted by RIDEA, where we participate directly in the operational cash flow of a property.

We believe that we are not, and intend to conduct our operations so as not to become, regulated as an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act. We have relied, and intend to continue to rely, on current interpretations of the staff of the SEC in an effort to continue to qualify for an exemption from registration under the Investment Company Act. For more information on the exemptions that we use refer to Item 1A. "Risk Factors—*Maintenance of our Investment Company Act exemption imposes limits on our operations*" in our 2014 Form 10-K.

We own and manage healthcare properties. As such, we or our operators, as the case may be, are subject to numerous international, federal, state and local healthcare laws and regulations that are subject to frequent and substantial changes (sometimes applied retroactively) resulting from legislation, adoption of rules and regulations and administrative and judicial interpretations of existing laws. Refer to "Healthcare Regulation" below.

We are also subject to regulation governing mortgage lending. Although most states do not regulate commercial real estate finance, certain states impose limitations on interest rates and other charges and on certain collection practices and creditor remedies and require licensing of lenders and financiers and adequate disclosure of certain contract terms. We are also required to comply with certain provisions of the Equal Credit Opportunity Act that are applicable to commercial real estate loans.

Real estate properties owned by us and the operations of such properties are subject to various international, federal, state and local laws and regulations concerning the protection of the environment, including air and water quality, hazardous or toxic substances and health and safety. In addition, such properties are required to comply with the Americans with Disabilities Act of 1990, or the ADA, the Fair Housing Act, applicable fire and safety regulations, building codes and other land use regulations. For further information regarding environmental matters and the ADA, refer to "Environmental Matters" and "ADA" below.

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

For additional information regarding regulations applicable to us, see Item 1A. "Risk Factors" in our 2014 Form 10-K.

Environmental Matters

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

ADA

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

Healthcare Regulation

<u>Overview</u>

Assisted living, memory care, independent living, hospitals, skilled nursing facilities and other healthcare providers that operate healthcare properties in our portfolio are subject to extensive federal, state and local laws, regulations and industry standards governing their operations. Failure to comply with any of these, and other, laws could result in loss of licensure; loss of certification or accreditation; denial of reimbursement; imposition of fines; suspension or exclusion from federal and state healthcare programs; or closure of the facility. Although the properties within our portfolio may be subject to varying levels of governmental scrutiny, we expect that the healthcare industry, in general, will continue to face increased regulation and pressure in the areas of fraud and abuse, cost control and management of the provision of services, among others. We also expect that efforts by third-party payors, such as the federal Medicare program, state Medicaid programs and private insurers, to impose greater and more stringent cost controls upon operators will intensify and continue. Changes in laws, regulations, reimbursement, and enforcement activity can all have a significant effect on the operations and financial condition of our tenants, managers and operators, which in turn may adversely impact us, as set forth below and under Item 1A. "Risk Factors" in our 2014 Form 10-K.

Fraud and Abuse Enforcement

Healthcare providers, including, but not limited to skilled nursing facilities and hospitals (and some senior housing facilities), are subject to federal and state laws and regulations that govern the operations and financial and other arrangements that may be entered into by healthcare providers, and prohibiting fraudulent and abusive practices by such providers. These laws include: (i) laws requiring providers to furnish only medically necessary services and submit to the government valid and accurate statements for each service; (ii) state anti-kickback laws and the Federal Anti-Kickback Statute, which generally prohibit persons from offering, providing, soliciting, or receiving remuneration to induce either the referral of an individual or the furnishing of a good or service for which payment may be made under a government healthcare program, such as Medicare or Medicaid; (iii) the federal physician self-referral law (commonly known as the Stark Law), which generally prohibits the submission of claims to Medicare for payment that were the result of a referral by a physician who has a financial relationship with the health service provider and analogous state laws; and (iv) the Civil Monetary Penalties Act and the Federal False Claims Act including its "whistleblower" provisions, which prohibits, among other things, the knowing presentation of a false or fraudulent claim for certain healthcare services. Additionally, certain laws, including HIPAA and the Health Reform Laws (both defined and discussed further below) have broadened the federal fraud and abuse laws to enhance both the scope (e.g. private payers) and the penalties for non-compliance with the laws.

Enforcement of healthcare fraud has increased due in large part to amendments to the Federal False Claims Act that encourages private individuals to sue on behalf of the government. Sanctions for violations of these laws, regulations, and other applicable guidance may include, but are not limited to, criminal and/or civil penalties and fines, loss of licensure, immediate termination of government payments and exclusion from government healthcare programs, any of which could have a material adverse effect on the ability of an operator to meet its financial obligations to us.

Reimbursement

Federal, state and private managed care payor reimbursement methodologies applied to healthcare providers continue to evolve. Federal and state authorities have considered and may seek to implement new or modified reimbursement methodologies that may negatively impact healthcare property operations. The impact of any such changes, if implemented, may result in a material adverse effect on our healthcare property operations.

Skilled Nursing Facilities and Hospitals. Skilled nursing facilities and hospitals typically receive most of their revenues from the Medicare and Medicaid programs, with the balance representing reimbursement payments from private managed care payors, including private insurers and self-pay patients. Skilled nursing facilities and hospitals are subject to periodic pre- and post-payment reviews, and other audits by federal and state authorities. A review or audit of a property operator's claims could result in recoupments, denials or delay of payments in the future, each of which could have a significant negative consequence.

Medicare Reimbursement. Medicare, a federal program, is a significant payor source for our skilled nursing facilities and hospitals. Skilled nursing facilities are reimbursed under the Medicare Skilled Nursing Facility Prospective Payment System, or SNF PPS. Hospitals are reimbursed by Medicare under prospective payment systems which vary based upon the type of hospital, geographic location and service furnished. For skilled nursing facilities and hospitals, there are risks that costs will exceed the fixed payments, and payments will be insufficient as compared to actual costs of delivering care, which could result in financial difficulties for the facilities. Recent attention on billing practices and payments and/or ongoing government pressure to reduce spending by government healthcare programs, could result in lower payments to skilled nursing facilities and/or hospitals and, as a result, may impair an operator's ability to meet its financial obligations to us.

Medicaid Reimbursement. Medicaid is also a significant payor source for our skilled nursing facilities and hospitals. The federal and state governments share responsibility for financing Medicaid. The percentage of Medicaid dollars used for long-term care varies from state to state, due in part to different ratios of elderly population and eligibility requirements. Within certain federal guidelines, states have a fairly wide range of discretion to determine eligibility and reimbursement methodology. Many states reimburse long-term care facilities using fixed daily rates, which are applied prospectively based on patient acuity and the historical costs incurred in providing patient care. Certain states are attempting to slow the rate of growth in Medicaid expenditures by freezing rates or restricting eligibility and benefits. In addition, federal budgetary proposals could have lower federal spending for Medicaid, potentially impacting provider Medicaid reimbursement rates. Finally, certain states have elected not to expand their Medicaid eligibility criteria pursuant to recent healthcare reform laws, as described further below. In these states, there may be fewer individuals receiving insurance through state Medicaid programs and healthcare providers may continue to have a population of uninsured patients that require treatment. Other states that have opted to expand Medicaid may later choose to discontinue or modify that expansion. Reductions in Medicaid reimbursement rates or patient eligibility could materially affect revenues of our facilities.

Senior Housing Facilities (assisted living, independent living and memory care facilities, excluding skilled nursing facilities). While the majority of revenues received by the operators of our senior housing facilities are from private pay sources, a small portion of their revenue is received from Medicaid reimbursement. There can be no guarantee that a state Medicaid program will continue to reimburse for services at current levels or continue to be available to our residents. Rates generated at facilities will vary by payor mix, market conditions and resident acuity. Rates paid by self-pay residents are set by the facilities and are determined by local market conditions and operating costs.

Licensure, Certification and CON

Hospitals, skilled nursing, senior housing facilities and other healthcare providers that operate healthcare properties in our portfolio are subject to extensive state licensing and registration laws. The failure of our operators and tenants to maintain or renew any required license, certification, accreditation or regulatory approval could prevent a facility from operating in the manner intended by the operators or tenants.

Certain of our healthcare facilities are subject to a variety of state certificate of need, or CON, laws and regulations, which may restrict the ability of operators to add new properties or expand an existing facility's size or services. In addition, CON laws may constrain the ability of an operator to transfer responsibility for operating a particular facility to a new operator.

Healthcare Reform

The Patient Protection and Affordable Care Act of 2010, or PPCA, and the Healthcare and Education Reconciliation Act of 2010, which amends PPCA, collectively, the Health Reform Laws, and certain follow-on laws (e.g., the Improving Medicare Post-Acute Transformation, or IMPACT, Act of 2014) serve as the primary vehicle for comprehensive healthcare reform in the United States and are becoming effective through a phased approach, which began in 2010 and will conclude in 2018. The laws are intended to reduce the number of individuals in the United States without health insurance and significantly change the means by which healthcare is organized delivered and reimbursed. Healthcare reform legislation includes: (i) program integrity provisions that both create new authorities and expand existing authorities for federal and state governments to address fraud, waste and abuse in federal health programs; (ii) expanded reporting requirements and responsibilities related to property ownership and management, patient safety and care quality; and (iii) new initiatives to strengthen post-acute care services and promote relationships between acute and post-acute care providers. The inability or failure to comply with these reform laws could impact the ability of our operators to participate in federal health programs, causing revenues to decline and ultimately impact their ability to meet their financial obligations to us.

Information Privacy and Security

Healthcare providers are subject to a myriad of state and federal laws which protect the privacy and security of information. The Health Insurance Portability and Accountability Act of 1996, or HIPAA, provides for communication of health information through standard electronic transaction formats and for the privacy and security of health information. Operators also may face significant financial exposure if they fail to maintain the privacy and security of medical records and other personal health information about individuals. The Health Information Technology for Economic and Clinical Health, or HITECH Act, strengthened the HHS Secretary's authority to impose civil monetary penalties for HIPAA violations.

Competition

We compete, primarily on the basis of price, available capital, knowledge of the industry and flexibility of financing structure, with real estate partnerships, other REITs, independent owners and operators and other investors (including, but not limited to, banks and insurance companies) in the acquisition and financing of healthcare-related real estate assets. Among the factors adversely affecting our ability to compete are the following:

- we may have less knowledge than our competitors of certain markets in which we seek to purchase, develop or finance facilities;
- our competitors may have greater financial and operational resources than we have; and
- our competitors or other entities may determine to pursue a strategy similar to ours.

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

Employees

As of December 31, 2014, we had no employees. Our Advisor or its affiliates provide management, acquisition, advisory, marketing, investor relations and certain administrative services for us.

Corporate Governance and Internet Address

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

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

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

We completed our Initial Offering on February 2, 2015 and all of the shares initially registered were issued. We began raising proceeds from our Follow-on Offering pursuant to an effective registration statement in our Follow-on Offering at a price of $10.20 per share in our "best efforts" Follow-on Primary Offering and a $9.69 purchase price for shares sold under our Follow-on DRP. There is no established public trading market for our shares of common stock. We do not expect that our shares will be listed for trading on a national securities exchange in the near future, if ever. Our board of directors will determine when, and if, to apply to have our shares of common stock listed for trading on a national securities exchange, subject to satisfying existing listing requirements. Our board of directors does not have a stated term for evaluating a listing on a national securities exchange as we believe setting a finite date for a possible, but uncertain future liquidity transaction may result in actions that are not necessarily in the best interest or within the expectations of our stockholders.

In order for members of FINRA and their associated persons to participate in the offering and sale of our shares of common stock pursuant to FINRA Rule 2310, we disclose in each Annual Report distributed to our stockholders a per share estimated value of our shares of common stock, the method by which it was developed and the date of the data used to develop the estimated value. For these purposes, the estimated value of our shares was deemed to be $10.00 per share as of December 31, 2014 and until the effectiveness of our Follow-on Offering. The basis for this valuation is the fact that we were conducting a continuous, public offering of our common stock at the price of $10.00 per share (not taking into consideration purchase price discounts for certain categories of purchasers) as of December 31, 2014.

On January 29, 2015, in connection with our Follow-on Offering, our board of directors established an offering price of $10.20 per share for shares sold in our Follow-on Primary Offering and $9.69 per share for shares sold in our Follow-on DRP. Our board of directors, including all of our independent directors, approved the offering price upon the recommendation of our board of director's audit committee, which was responsible for the oversight of a valuation process that our board of directors determined to conduct in connection with establishing the offering price. The offering price was calculated with the assistance of our Advisor and based, in part, on an estimated net asset value per share obtained from Robert A. Stanger & Co., Inc., an experienced third-party independent valuation and consulting firm. The audit committee based its recommendation on a number of factors, including, but not limited to: (i) a review of the estimated value of our assets less the estimated value of our liabilities as of December 31, 2014; (ii) the estimated offering costs and other expenses associated with our Follow-on Offering; and (iii) prevailing market conditions. The offering price is not a statement of our current or expected estimated value per share, as our board of directors also took into consideration other factors and costs described above, which are included in the offering price to limit this offering's potential dilutive impact to our existing stockholders. For additional information on the methodology used in calculating our Follow-on Offering price per share, refer to our Current Report on Form 8-K filed with the SEC on February 2, 2015 and Item 1A. in our 2014 Form 10-K "Risk Factors—*The Offering price for shares being offered in our Follow-on Offering was determined by our board of directors based upon a valuation of our assets and liabilities, estimated offering expenses and prevailing market conditions and may not be indicative of the price at which the shares would trade if they were listed on a national securities exchange, the amount realized in our sale, merger or liquidation or the amount a stockholder would realize in a private sale of shares."*

In addition, our Advisor must prepare annual statements of estimated share values to assist fiduciaries of retirement plans subject to the annual reporting requirements of ERISA in the preparation of their reports relating to an investment in our shares of common stock.

We expect to establish an estimated value per share pursuant to amended FINRA Rules 2310 and 2340 by April 11, 2016 (the effective date of the amended rules). At that time, pursuant to the FINRA rules, we will provide the estimated value per share to our stockholders in our annual report. The estimated value per share of our common stock will be based upon the fair value of our assets less the fair value of our liabilities under market conditions existing at the time of the valuation. We will obtain independent third party appraisals for our properties and will value our other assets in a manner we deem most suitable under the circumstances, which will include an independent appraisal or valuation. A committee comprised of independent directors will be responsible for the oversight of the valuation process, including approval of the engagement of any third parties to assist in the valuation of assets, liabilities and unconsolidated investments. We anticipate that any property appraiser we engage will be a member of the Appraisal Institute with the MAI designation or such other professional valuation designation appropriate for the type and geographic locations of the assets being valued and will provide a written opinion, which will include a description of the reviews undertaken and the basis for such opinion. Any such appraisal will be provided to a participating dealer upon request. After the initial appraisal, appraisals will be done annually and may be done on a quarterly rolling basis. The valuations are estimates and consequently should not necessarily be viewed as an accurate reflection of the fair value of our investments nor will they necessarily represent the amount of net proceeds that would result from an immediate sale of our assets.

Stockholders

As of March 23, 2015, we had 24,443 stockholders of record.

Distributions

The following table summarizes distributions declared for the years ended December 31, 2014 and 2013 (dollars in thousands):

Period	Distributions [1] Cash	DRP	Total
2014			
First Quarter	$ 1,169	$ 1,393	$ 2,562
Second Quarter	2,070	2,504	4,574
Third Quarter	3,360	4,201	7,561
Fourth Quarter	5,298	6,646	11,944
Total	$ 11,897	$ 14,744	$ 26,641
2013			
Second Quarter [2]	$ 45	$ 2	$ 47
Third Quarter	91	49	140
Fourth Quarter	535	590	1,125
Total	$ 671	$ 641	$ 1,312

(1) Represents distributions declared for such period, even though such distributions are actually paid to stockholders the month following such period. Distributions are based on a daily amount of $0.00184932 per share, which is equivalent to an annual distribution rate of 6.75%.
(2) Distributions from April 5, 2013 (the date of our first investment) through June 30, 2013.

Distribution Reinvestment Plan

We adopted our DRP through which common stockholders may elect to reinvest an amount equal to the distributions declared on their shares in additional shares of our common stock in lieu of receiving cash distributions. The purchase price per share under our Initial DRP was $9.50. In connection with its determination of the offering price for shares of our common stock in our Follow-on Offering, the board of directors determined that follow-on distributions may be reinvested in shares of our common stock at a price of $9.69 per share, which is approximately 95% of the offering price of $10.20 per share established for purposes of our Follow-on Offering. We expect to establish an estimated value per share pursuant to amended FINRA Rules 2310 and 2340 by April 11, 2016 (the effective date of the amended rules). At that time, pursuant to the FINRA rules, we will provide the estimated value per share to our stockholders in our annual report. No selling commissions or dealer manager fees are paid on shares issued pursuant to our DRP. Our board of directors may amend or terminate our DRP for any reason upon ten-days' notice to participants, except that we may not amend our DRP to eliminate a participant's ability to withdraw from our DRP.

For the period from April 5, 2013 through December 31, 2014, we issued 1.3 million shares totaling $12.7 million of gross offering proceeds pursuant to our Initial DRP.

In December 2014, our board of directors authorized the reallocation of shares available under our Initial DRP to our Initial Primary Offering. We completed our Initial Offering on February 2, 2015 and all of the shares initially registered were issued.

Use of Proceeds from Registered Securities

On August 7, 2012, our registration statement on Form S-11 (File No. 333-170802), covering our Initial Offering of up to 110,526,315 shares of common stock was declared effective under Securities Act of 1933, as amended, or the Securities Act. We completed our Initial Offering on February 2, 2015 and all of the shares initially registered were issued.

We issued the following shares of common stock and raised the following gross proceeds in connection with our Initial Offering (dollars and shares in thousands):

	Year Ended December 31, 2014		Inception through February 2, 2015 (1)	
	Shares	Proceeds	Shares	Proceeds
Primary Offering	96,596	$ 963,579	108,551	$ 1,082,762
DRP	1,338	12,710	1,975	18,764
Total	97,934	$ 976,289	110,526	$ 1,101,526

(1) Our Initial Offering was completed on February 2, 2015.

For the period from inception through March 23, 2015, we issued 111.6 million shares of common stock total gross proceeds of $1.1 billion pursuant to our Offering, including 2.3 million shares of common stock pursuant to our DRP, and 1.1 million shares of common stock representing gross proceeds of $10.7 million related to our Follow-on Offering.

From the commencement of our Initial Offering through December 31, 2014, we incurred $65.4 million in selling commissions, $28.8 million in dealer manager fees and $6.0 million in other offering costs in connection with the issuance and distribution of our registered securities and $77.3 million of these costs have been reallowed to third parties.

From the commencement of our Offering through December 31, 2014, the net proceeds to us from our Offering, after deducting the total expenses incurred described above, were $876.0 million. From the commencement of our Offering through December 31, 2014, we used proceeds of $425.1 million to purchase real estate equity investments, $145.0 million to acquire and originate real estate debt investments and $22.5 million to pay our Advisor acquisition fees.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We adopted our Share Repurchase Program effective August 7, 2012, 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 less than one year in connection with a stockholder’s death or qualifying disability, if the disability is deemed qualifying by our board of directors in their sole discretion and after receiving written notice from the stockholder or the stockholder’s estate. We are not obligated to repurchase shares under our Share Repurchase Program. We fund repurchase requests received during a quarter with proceeds set aside for that purpose which are not expected to exceed proceeds received from our DRP. However, to the extent that the aggregate DRP proceeds are not sufficient to fund repurchase requests, our board of directors may, in its sole discretion, choose to use other sources of funds. Subject to funds being available, we will limit the number of shares redeemed pursuant to our Share Repurchase Program to: (i) 5.0% of the weighted average number of shares of our common stock outstanding during the prior calendar year; and (ii) those that could be funded from the net DRP proceeds in the prior calendar year plus such additional funds as may be reserved for that purpose by our board of directors; provided, however, that the above volume limitations shall not apply to repurchases requested within two years after the death or qualifying disability of a stockholder. Our board of directors may, in its sole discretion, amend, suspend or terminate our Share Repurchase Program at any time upon ten days’ 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 until our shares are listed on a national exchange or included for quotation in a national securities market. We will repurchase shares at 95% of the estimated value per share established for purposes of our Follow-on Offering, unless the shares are being repurchased in connection with a stockholder's death or qualifying disability.

For the three months ended December 31, 2014, 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
October 1 to October 31	1,514	$ 9.26	1,514	(1)
November 1 to November 30	—	—	—	(1)
December 1 to December 31	—	—	—	(1)
Total	1,514	$ 9.26	1,514	

(1) Subject to funds being available, we will limit the number of shares of our common stock repurchased during any calendar year to 5.0% of the weighted average number of shares of our common stock outstanding during the prior calendar year; provided however, shares of our common stock subject to a repurchase requested upon the death of a stockholder will not be subject to this cap.

As of December 31, 2014, we had no unfulfilled repurchase requests.

Unregistered Sales of Equity Securities

During the three months ended December 31, 2014, we did not issue any equity securities that were not registered under the Securities Act of 1933. All prior sales of unregistered securities have been previously reported on quarterly reports on Form 10-Q.

SELECTED FINANCIAL DATA

The information below should be read in conjunction with "Forward-Looking Statements" in this Annual Report and Part I, Item 1A. "Risk Factors" in our 2014 Form 10-K, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes thereto included in "Financial Statements and Supplementary Data," included in this Annual Report.

	Years Ended December 31,	
	2014	2013
	(Dollars in thousands, except per share data)	
Operating Data:		
Resident fee income	$ 14,511	$ 38
Rental income	8,038	488
Interest income	7,490	375
Total revenues	30,039	901
Total expenses	34,125	3,471
Equity in earnings (losses) of unconsolidated ventures	(12,127)	—
Net income (loss)	(14,979)	(2,570)
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	(14,945)	(2,560)
Net income (loss) per share of common stock, basic/diluted	$ (0.38)	$ (1.26)
Distributions declared per share of common stock	$ 0.68	$ 0.50

	As of December 31,		
	2014	2013	2012
Balance Sheet Data:	(Dollars in thousands)		
Cash	$ 267,672	$ 45,537	$ 202
Operating real estate, net	259,409	53,969	—
Investments in unconsolidated ventures	215,175	—	—
Real estate debt investments, net	146,267	11,250	—
Total assets	918,749	115,839	202
Total borrowings	76,000	18,282	—
Due to related party	755	1,141	—
Total liabilities	86,764	22,344	—
Total equity	831,985	93,495	202

	Years Ended December 31,	
	2014	2013
Other Data:	(Dollars in thousands)	
Cash flow provided by (used in):		
Operating activities	$ (1,920)	$ (342)
Investing activities	(581,879)	(59,069)
Financing activities	805,934	104,746

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

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto included in "Financial Statements and Supplementary Data" in this Annual Report and risk factors included in Part I, Item 1A "Risk Factors" of our 2014 Form 10-K. References to "we," "us," or "our" refer to NorthStar Healthcare Income, Inc. and its subsidiaries unless the context specifically requires otherwise.

Introduction

We 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, predominantly in the United States, which we define as ALF, MCF, SNF and ILF, that have an emphasis on private pay patients although many of these facilities may also rely on public pay patients. We may also invest in equity and debt investments in other healthcare property types, including MOB, hospitals and rehabilitation facilities. We may also invest internationally. In addition, we may acquire healthcare-related securities. 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 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.

Our equity investments are generally in the form of lease or management transactions whereby we purchase a property and enter into a long-term lease or management agreement with an operator responsible for contractual payments to us. We enter into structures permitted by RIDEA, whereby we participate directly in the operational cash flow of a property. Our debt investments generally consist of first mortgage loans, subordinate mortgages, mezzanine loans, preferred equity investments and participations in such investments.

We are externally managed and have no employees. Prior to June 30, 2014, we were managed by an affiliate of NorthStar Realty Finance Corp. (NYSE: NRF), or NorthStar Realty. Effective June 30, 2014, NorthStar Realty spun-off its asset management business into a separate publicly traded company, NorthStar Asset Management Group Inc. (NYSE: NSAM), or our Sponsor. Our Sponsor and its affiliates provide asset management and other services to us, NorthStar Realty, other sponsored public non-traded companies and any other companies our Sponsor and its affiliates may manage in the future, or collectively the NSAM Managed Companies, both in the United States and internationally. Concurrent with the spin-off, affiliates of our Sponsor entered into a new advisory agreement with us and each of the other NSAM Managed Companies. Pursuant to our advisory agreement, NSAM J-NSHC Ltd, an affiliate of our Sponsor, or our Advisor, agreed to manage our day-to-day operations on terms substantially similar to those set forth in our prior advisory agreement with NorthStar Healthcare Income Advisor, LLC, or our Prior Advisor. References to our Prior Advisor herein refer to the services performed by and fees paid and accrued to our Prior Advisor during the period prior to June 30, 2014. The spin-off of NorthStar Realty's asset management business had no impact on our operations.

Our primary investment types are as follows:

- *Real Estate Equity* - Our equity investments may include equity investments, directly or through joint ventures, backed by properties in the mid-acuity senior housing sector, predominantly in the United States, which we define as ALF, MCF, SNF and ILF that have an emphasis on private pay patients and may also include MOB, hospitals and rehabilitation facilities. Certain healthcare properties operate under the RIDEA structure generating resident income from short-term residential agreements and incur customary related operating expenses.
- *Real Estate Debt* - Our debt investment business focuses 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* - Our securities investments may include CMBS and other securities backed primarily by loans secured by healthcare properties.

We believe that our targeted investment types are complementary to each other due to their overlapping sources of investment opportunities, common reliance on real estate fundamentals and ability to apply similar portfolio management and servicing skills to maximize value and to protect capital.

We initially registered to offer up to 100.0 million shares pursuant to our Initial Primary Offering and up to 10.5 million shares pursuant to our Initial DRP. In December 2014, our board of directors authorized the reallocation of 8.6 million shares available under our Initial DRP to our Initial Primary Offering. On February 2, 2015, we successfully completed our Initial Offering by raising $1.1 billion.

On February 6, 2015, our registration statement on Form S-11 was declared effective by the SEC for our Follow-on Offering, of up to $700.0 million, which includes up to $500.0 million in shares pursuant to our Follow-on Primary Offering and up to $200.0 million in shares pursuant to our Follow-on DRP. We reserve the right to reallocate shares of our common stock being offered between our Follow-on Primary Offering and our Follow-on DRP. We expect our Follow-on Offering to terminate on the earlier of two years following the effective date or once the maximum number of shares offered are sold. However, our board of directors may determine to terminate our Offering at any time. We began raising capital from our Follow-on Offering at the end of February 2015.

Our Dealer Manager serves as the dealer manager for our Primary Offering.

On February 11, 2013, we commenced operations by satisfying our minimum offering requirement in our Initial Primary Offering as a result of NorthStar Realty purchasing 222,223 shares of common stock for $2.0 million. From inception through March 23, 2015, we raised total gross proceeds of $1.1 billion pursuant to our Offering.

Sources of Operating Revenues and Cash Flows

We generate revenues from resident fees, rental income and interest income. Resident fee income from healthcare properties using the RIDEA structure 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. Interest income is generated from our debt and healthcare-related securities investments. Additionally, we report our proportionate interest of revenues and expenses from joint ventures which own healthcare real estate. We may also acquire investments which generate attractive returns without any leverage.

Profitability and Performance Metrics

We calculate FFO and 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

Liquidity and capital started to become more available in early 2012 for the commercial real estate markets to stronger sponsors and both Wall Street and commercial banks began to more actively provide credit to real estate borrowers accelerating the pace of investment in real estate. In late 2012, in order to stimulate growth, several of the world's largest central banks acted in a coordinated effort through massive injections of stimulus in the financial markets, which has facilitated keeping interest rates low since then.

A proxy for the liquidity in the commercial real estate market is non-agency CMBS issuance. Approximately $80 billion and $88 billion of non-agency CMBS was issued in 2013 and 2014, respectively, with industry experts currently predicting approximately $100 billion of non-agency CMBS issuance in 2015.

We believe the U.S. economy is on a healthy growth path and that the U.S. Federal Reserve is on track to begin raising rates in 2015. However, there are concerns about low inflation in the United States, a stronger U.S. dollar, slow global growth and international market volatility. Many other global central banks are easing monetary conditions to combat their own problems with low inflation and slow growth.

Valuations in the commercial real estate markets have generally improved since bottoming out in 2009. Robust investor demand in 2014 for commercial real estate increased transaction activity and prices as rent and vacancy fundamentals improved across most property sectors and are forecasted to continue to improve in 2015. However, global economic and political headwinds remain. For instance, global market instability and the risk that maturing commercial real estate debt may have difficulties being refinanced, among other factors, may continue to cause periodic volatility in the commercial real estate market for some time. It is currently estimated that approximately $1.4 trillion of commercial real estate debt will mature through 2018. While there is an increased supply of liquidity and improved fundamentals in the commercial real estate market, we still anticipate that certain of these loans will not be able to be refinanced, potentially inhibiting growth and contracting credit.

Virtually all commercial real estate property types were adversely impacted by the credit crisis and subsequent recession, while some such as land, condominium and other commercial property types were more severely impacted. Our commercial real estate equity, debt and securities investments, if any, could be negatively impacted by weak real estate markets and economic conditions. While the U.S. economy is stronger today, a return to weak economic conditions in the future could reduce a tenant's/operator's/resident's ability to make payments in accordance with contractual terms and to lease or occupy new space. To the extent that market rental and occupancy rates are reduced, property-level cash flow could be negatively affected.

After showing considerable resiliency during the economic downturn between 2007 and 2010, the non-traded company industry has grown with approximately $16 billion raised in 2014. The $20 billion of total capital raised in 2013 included increased activity due to an unusually high amount of liquidity events. We anticipate capital flows to remain strong in 2015 given the recent momentum in the market. Due to generally positive market dynamics and our Advisor's and its affiliates' expertise and industry relationships, we continue to see a robust pipeline of investment opportunities in the healthcare real estate sector. These investment opportunities have credit qualities and yield profiles that are consistent with our underwriting standards and that we believe offer the opportunity to meet or exceed our targeted returns. While we remain optimistic that we will continue to be able to generate and capitalize on an attractive pipeline of opportunities, there is no assurance that this will be the case.

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 financing terms for our investments.

We believe owners and operators of senior housing facilities and other healthcare properties are benefiting from demographic trends, specifically the aging of the U.S. population 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. As healthcare costs increase, insurers, individuals and the U.S. government are pursuing lower cost options for healthcare. Senior housing facilities, such as ALF, MCF, SNF and ILF, for which the staffing requirements and associated costs may be more desirable than higher acuity healthcare settings, such as short or long-term acute-care hospitals, in-patient rehabilitation facilities and other post-acute care settings, provide care and support to residents in more cost effective settings. Improved supply and demand fundamentals, resulting from limited development of new medical office space during the recent economic downturn, the need for healthcare services for the aging population and new hospital system strategies have created attractive investment opportunities. Our MOB portfolio focuses on on- and off-campus multi-tenant facilities which require active management and for which some or all of the associated operating expenses can be passed through to the tenants. Recent regulatory changes have created incentives for long-term acute-care hospitals and in-patient rehabilitation facilities to minimize patient lengths of stay and placed limits on the type of patient that can be admitted to these facilities. The growth in total demand for healthcare, broad U.S. demographic changes and the shift towards cost effective community-based settings is resulting in dynamic changes to the healthcare delivery system. We periodically monitor federal and state reimbursement programs and assess any impact that changes in reimbursement levels or the timing of payments may have on the ability of our tenants/operators to meet their payment obligations.

Despite the growth in the industry and favorable market conditions, economic uncertainty may prevail 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 or loan, as well as the possibility for reduced income for our operating investments. To the extent that market rental and occupancy rates decline, property-level cash flow could be negatively affected as existing leases renew at lower rates and over longer periods of time, the decreased cash flow impacts the value of underlying properties and the borrowers' ability to service their outstanding loans.

Despite the barriers and constraints to investing in the senior housing sector, the demographics and other market dynamics are resulting in the sector becoming more attractive to investors. Merger and acquisition activity in the senior housing real estate market is currently robust and we expect it to remain so into the near term.

Our Strategy

Our primary business objectives are to make investments in our targeted assets that will generate attractive risk-adjusted returns, stable cash flow for distributions and provide downside protection to our stockholders. Some of our investments may be considered transitional in nature because the borrower or owner may have a business plan to improve the collateral and as a result generally require the borrower, operator or us to fund interest or other reserves, whether through loan proceeds or otherwise, to support debt service payments and capital expenditures. We, our borrower or owner, and possibly a guarantor, may be required to refill these reserves should they become deficient during the applicable period for any reason. We will also seek to realize growth in the value of our real estate equity investments through appreciation and/or by timing their sale to maximize value. We believe that our Advisor and its affiliates have a platform that derives a competitive advantage from the combination of experience, proven track record of successfully managing public companies, deep industry relationships and market leading real estate credit underwriting and capital markets expertise which enables us to manage credit risk across our investments as well as to structure and finance our assets efficiently. We believe that our targeted investment types are complementary to each other due to their overlapping sources of investment opportunities, common reliance on real estate fundamentals and ability to apply similar portfolio management and servicing skills to maximize value and to protect capital. We use the net proceeds from our Offering and other financing sources to carry out our primary business objectives of acquiring and originating healthcare real estate-related investments. We believe that mid-acuity senior housing facilities provide an opportunity to generate attractive risk-adjusted returns. Mid-acuity senior housing facilities generally provide the broadest level of services to residents in a more cost-effective setting resulting in a longer length of stay for residents and less turnover in tenancy than can be provided in some other healthcare settings.

We began raising capital in 2013 and completed our Initial Offering on February 2, 2015, raising total gross proceeds of $1.1 billion and we will begin raising new equity through our Follow-on Offering, which was declared effective by the SEC on February 6, 2015.

The following table presents our investment activity in 2014 and from inception through December 31, 2014 (dollars in thousands):

Investment Type:	Year Ended December 31, 2014 Amount [(1)]	Inception through December 31, 2014 Amount [(1)]
Real estate equity	$ 895,455	$ 951,842
Real estate debt	134,637	145,887
Total	$ 1,030,092	$ 1,097,729

(1) Includes net purchase price allocation related to net intangibles, deferred costs, other assets, if any, and adjusted for subsequent capital expenditures. Includes our proportionate interest in real estate held through joint ventures of $679.8 million.

Critical Accounting Policies

Principles of Consolidation

Our consolidated financial statements include the accounts of consolidated subsidiaries. We consolidate variable interest entities, or VIEs, if any, where we are the primary beneficiary and voting interest entities which are generally majority owned or otherwise controlled by us. 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. We base the qualitative analysis on our 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. We reassess the 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. We determine whether we are 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 us 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 our business activities and the other interests. We reassess the determination of whether we are 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.

We evaluate our investments and financings, including investments in unconsolidated ventures and securitization financing transactions, if any, to determine whether they are a VIE. We analyze new investments and financings, as well as reconsideration events for existing investments and financings, which vary depending on type of investment or financing. As of December 31, 2014, we have not identified any VIEs related to our investments or financing.

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 we have a majority voting interest in a voting interest entity, the entity will generally be consolidated. We do not consolidate a voting interest entity if there are substantive participating rights by other parties and/or kick-out rights by a single party.

We perform 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

Non-controlling, unconsolidated ownership interests in an entity may be accounted for using the equity method, at fair value or the cost method.

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. We expense certain acquisition costs and fees associated with transactions deemed to be business combinations in which we consolidate the asset and we capitalize these costs for transactions deemed to be acquisitions of an asset, including an equity investment.

We may account for an investment in an unconsolidated entity at fair value by electing the fair value option. We may account for investments that do not qualify for equity method accounting or for which the fair value option was not elected using the cost method if we determine the investment in the unconsolidated entity is insignificant. Under the cost method, equity in earnings is recorded as dividends are received to the extent they are not considered a return of capital, which is recorded as a reduction of cost of the investment.

Operating Real Estate

We follow the purchase method for an acquisition of operating real estate, where the purchase price is allocated to tangible assets such as land, building, furniture and fixtures, improvements and other identified intangibles. 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. Construction costs incurred in connection with our investments are capitalized and included in operating real estate, net on our 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 our consolidated statements of operations. We evaluate whether a real estate acquisition constitutes a business and whether business combination accounting is appropriate.

Real Estate Debt Investments

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 loan loss reserve, if deemed appropriate, which approximates fair value. Debt investments where we do 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 value.

Real Estate Securities

We classify our securities investments as available for sale on the acquisition date, which are carried at fair value. Unrealized gains (losses) are recorded as a component of accumulated other comprehensive income, or OCI, in our consolidated statements of equity. However, we may elect the fair value option for certain of our available for sale securities, and as a result, any unrealized gains (losses) on such securities are recorded in unrealized gain (loss) on investments and other in our consolidated statements of operations.

Revenue Recognition

Operating Real Estate

Rental and escalation income from operating real estate is derived from leasing of space to various types of tenants and healthcare operators. The leases are for fixed terms of varying length and generally provide for annual rentals 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 rent recognized over the amount contractually due pursuant to the underlying leases is included in receivables on our consolidated balance sheets. 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 us on behalf of the respective property, as applicable. This revenue is accrued in the same period as the expenses are incurred.

We also generate operating income from healthcare properties under a RIDEA structure. Revenue related to healthcare properties includes resident room and care charges and other resident charges.

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 our consolidated statements of operations. The amortization of a premium or accretion of a discount is discontinued if such loan is reclassified to held for sale.

Real Estate 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

Operating Real Estate

Our 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 our operating real estate may be impaired or that its carrying value may not be recoverable. A property's value is considered impaired if management's estimate of the aggregate expected future undiscounted cash flow generated by the property is less than the carrying value. In conducting this review, management considers U.S. macroeconomic factors, real estate and healthcare sector conditions and 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 on operating real estate in our consolidated statements of operations.

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 tenant/operator/resident credit losses on unbilled rent receivable based on an evaluation of the collectability of such amounts.

Real Estate Debt Investments

Loans are considered impaired when, based on current information and events, it is probable that we will not be able to collect principal and interest amounts due according to the contractual terms. We assess the credit quality of the portfolio and adequacy of loan loss reserves on a quarterly basis or more frequently as necessary. Significant judgment of management is required in this analysis. 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 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 loan, a loan loss reserve is recorded with a corresponding charge to provision for loan losses. The loan loss reserve for each loan is maintained at a level that is determined to be adequate by management to absorb probable losses.

Income recognition is suspended for a loan at the earlier of the date at which payments become 90-days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful. When the ultimate collectability of the principal of an impaired loan is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the principal of an impaired loan 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 loan becomes contractually current and performance is demonstrated to be resumed. A loan is written off when it is no longer realizable and/or legally discharged. As of December 31, 2014, we did not have any impaired real estate debt investments.

Real Estate Securities

Securities for which the fair value option is elected are not evaluated for other-than-temporary impairment, or OTTI, as any change in fair value is recorded in our 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. Impairment of a security is considered to be other-than-temporary when: (i) the holder has the intent to sell the impaired security; (ii) it is more likely than not the holder will be required to sell the security; or (iii) the holder does not expect to recover the entire amortized cost of the security. When a security has been deemed to be other-than-temporarily impaired due to (i) or (ii), the security is written down to its fair value and an OTTI is recognized in the consolidated statements of operations. In the case of (iii), the security is written down to its fair value and the amount of OTTI is then bifurcated into: (a) the amount related to expected credit losses; and (b) the amount related to fair value adjustments in excess of expected credit losses. The portion of OTTI related to expected credit losses is recognized in our consolidated statements of operations. The remaining OTTI related to the valuation adjustment is recognized as a component of accumulated OCI in our consolidated statements of equity. The portion of OTTI recognized through earnings is accreted back to the amortized cost basis of the security through interest income, while amounts recognized through OCI are amortized over the life of the security with no impact on earnings. Real estate securities which are not high-credit quality are considered to have an OTTI if the security has an unrealized loss and there has been an adverse change in expected cash flow. The amount of OTTI is then bifurcated as discussed above.

Recent Accounting Pronouncements

In May 2014, the FASB issued an accounting update 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. When it becomes effective on January 1, 2017, the accounting standard update will replace most of the existing revenue recognition guidance currently promulgated by U.S. GAAP. We are in the process of evaluating the impact, if any, of the update on our consolidated financial statements and related disclosures.

In February 2015, the FASB issued updated guidance that changes the rules regarding consolidation. The pronouncement eliminates specialized guidance for limited partnerships and similar legal entities and removes the indefinite deferral for certain investment funds. The new guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with early adoption permitted. We are currently assessing the impact of the guidance on our consolidated financial position, results of operations and financial statement disclosures.

Results of Operations

Comparison of the Year Ended December 31, 2014 to December 31, 2013 (dollars in thousands):

	Years Ended December 31,		Increase (Decrease)	
	2014	2013	Amount	%
Revenues				
Resident fee income	$ 14,511	$ 38	$ 14,473	38,086.8%
Rental income	8,038	488	7,550	1,547.1%
Interest income	7,490	375	7,115	1,897.3%
Total revenues	30,039	901	29,138	3,234.0%
Expenses				
Property operating expense	10,810	24	10,786	44,941.7%
Interest expense	2,981	98	2,883	2,941.8%
Transaction costs	3,405	1,570	1,835	116.9%
Asset management and other fees - related party	8,220	1,334	6,886	516.2%
General and administrative expenses	4,418	313	4,105	1,311.5%
Depreciation and amortization	4,291	132	4,159	3,150.8%
Total expenses	34,125	3,471	30,654	883.1%
Other income (loss)				
Realized gain (loss)	(156)	—	(156)	N/A
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	(4,242)	(2,570)	(1,672)	65.1%
Equity in earnings (losses) of unconsolidated ventures	(12,127)	—	(12,127)	N/A
Income tax benefit (expense)	1,390	—	1,390	N/A
Net income (loss)	$ (14,979)	$ (2,570)	$ (12,409)	482.8%

On February 11, 2013, we commenced operations and subsequently made investments in real estate equity and debt.

Revenues

Resident Fee Income

Resident fee income increase of $14.5 million was attributable to new acquisitions in our real estate equity segment in 2014 and a full year of income for properties acquired in the fourth quarter 2013.

Rental Income

Rental income increase of $7.6 million was attributable to new acquisitions in our real estate equity segment in 2014 and a full year of income for properties acquired in the fourth quarter 2013.

Interest Income

Interest income increase of $7.1 million was attributable to new investments in our real estate debt segment in 2014.

Expenses

Property Operating Expenses

Property operating expenses increase of $10.8 million was attributable to new investments in our real estate equity segment in 2014 and a full year of expenses for properties acquired in the fourth quarter 2013.

Interest Expense

Interest expense increase of $2.9 million was primarily attributable to mortgage notes payable associated with new investments in our real estate equity segment in 2014 and a full year of interest expense attributable to new borrowings in the fourth quarter 2013.

Transaction Costs

Transaction costs primarily represented expenses such as professional fees associated with new real estate equity investments. Transaction costs increase of $1.8 million was related to new acquisitions in our real estate equity segment in 2014.

Asset Management and Other Fees - Related Party

Asset management and other fees - related party were incurred in our corporate segment and increased $6.9 million primarily due to significantly higher invested equity in 2014.

General and Administrative Expenses

General and administrative expenses are incurred at the corporate level. General and administrative expenses include auditing and professional fees, director fees, organization and other costs associated with operating our business. General and administrative expenses increase of $4.1 million was primarily attributable to increased operating costs in 2014.

Depreciation and Amortization

Depreciation and amortization expense increase of $4.2 million was primarily related to new acquisitions in our real estate equity segment in 2014 and a full year of depreciation and amortization for the properties acquired in the fourth quarter 2013.

Other Income (Loss)

Realized Gain (Loss)

Realized loss of $0.2 million related to the write-off of deferred financing costs due to repayment of a mortgage note payable.

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

Equity in Earnings (Losses) of Unconsolidated Ventures

Equity in losses of unconsolidated ventures of $12.1 million included $2.1 million of operating and other income offset by $14.2 million related to transaction costs and depreciation and amortization expense.

Income Tax Benefit (Expense)

The income tax benefit for the year ended December 31, 2014 represents a net benefit of $1.4 million related to our healthcare portfolio operating under a RIDEA structure. The income tax expense for the year ended December 31, 2013 was an immaterial amount.

Liquidity and Capital Resources

We require capital to fund our investment activities and operating expenses. Subsequent to the completion of our Offering, our capital sources may include cash flow from operations, net proceeds from asset repayments and sales, borrowings from mortgage notes, credit facilities, other term borrowings and securitization financing transactions.

Offering

From inception through March 23, 2015, we raised total gross proceeds of $1.1 billion.

On February 6, 2015, our registration statement on Form S-11 was declared effective by the SEC for our Follow-on Offering, of up to $700.0 million, which includes up to $500.0 million in shares pursuant to our Follow-on Primary Offering and up to $200.0 million in shares pursuant to our Follow-on DRP. We reserve the right to reallocate shares of our common stock being offered between our Follow-on Primary Offering and our Follow-on DRP. We expect our Follow-on Offering to terminate on the earlier of two years following the effective date or once the maximum number of shares offered are sold. However, our board of directors may determine to terminate our Offering at any time. We began raising capital from our Follow-on Offering at the end of February 2015.

We are dependent upon the net proceeds from our Offering to conduct our operations. We obtain the capital required to primarily acquire, originate and asset manage a diversified portfolio of equity, debt and securities investments, directly or through joint ventures, in healthcare real estate and conduct our operations from the proceeds of our Offering and any future offerings we may conduct, from secured or unsecured financings from banks and other lenders and from any undistributed funds from our operations. As of March 23, 2015, we had $463.0 million of cash.

While we raised substantial funds through our Offering, the number and size of investments we make and the value of an investment in us may fluctuate with the performance of the specific assets we acquire. Further, we have certain fixed direct and indirect operating expenses, including certain expenses as a publicly offered REIT.

Our charter limits us from incurring borrowings that would exceed 300% 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 is 75% of the cost of our investments, including cash and excluding indirect leverage held through our unconsolidated joint venture investments. As of December 31, 2014, our leverage as a percentage of our cost of investments was 12%. Once we have fully invested the proceeds of our Offering, we expect that our financing may approximate 50% of the cost of our investments, although it may exceed this level during our organization and offering stage.

In addition to making investments in accordance with our investment objectives, we use or have used our capital resources to make certain payments to our Advisor, our Prior Advisor and our Dealer Manager. During our organization and offering stage, these payments include payments to our Dealer Manager for selling commissions and dealer manager fees and payments to our Advisor, Prior Advisor or their affiliates, as applicable, for reimbursement of certain organization and offering costs. However, we will not be obligated to reimburse our Advisor, or its affiliates, as applicable, to the extent that the aggregate of selling commissions, dealer manager fees and other organization and offering costs incurred by us exceed 15% of gross proceeds from our Primary Offering. During our acquisition and development stage, we expect to make payments to our Advisor, or its affiliates, as applicable, in connection with the selection and origination or acquisition of investments, the management of our assets and costs incurred by our Advisor in providing services to us. On June 30, 2014, we entered into a new advisory agreement with our Advisor, on terms substantially similar to those set forth in our prior advisory agreement with our Prior Advisor, which has a one-year term but may be renewed for an unlimited number of successive one-year periods upon the mutual consent of our Advisor and our board of directors, including a majority of our independent directors.

Term Loan Facility

We currently have one credit facility, or our Term Loan Facility, with initial capacity of up to $100.0 million and potential capacity of up to $200.0 million. Our Term Loan Facility allows us to finance real estate investments and first mortgage loans secured by healthcare real estate. The advance rate depends on asset type and characteristic and the interest rate depends on our leverage as a percentage of total assets, as defined in the governing documents. The initial maturity date of our Term Loan Facility is November 2016, with a one-year extension available at our option, subject to the satisfaction of certain customary conditions. Our Term Loan Facility contains representations, warranties, covenants, conditions precedent to funding, events of default and indemnities that are customary for agreements of this type. We are currently in compliance with all of our financial covenants under our Term Loan Facility. As of December 31, 2014, we had no borrowings outstanding under our Term Loan Facility.

Cash Flows

The following presents a summary of our consolidated statements of cash flows for the years ended December 31, 2014 and 2013 (dollars in thousands):

	Years Ended December 31,	
Cash flow provided by (used in):	2014	2013
Operating activities	$ (1,920)	$ (342)
Investing activities	(581,879)	(59,069)
Financing activities	805,934	104,746
Net increase (decrease) in cash	$ 222,135	$ 45,335

Year Ended December 31, 2014 Compared to December 31, 2013

Net cash used in operating activities was $1.9 million for the year ended December 31, 2014 compared to $0.3 million for the year ended December 31, 2013. The increase in net cash flow used in operating activities was primarily related to an increase in fees paid to our Advisor for the acquisition and management of our investments, an increase in general and administrative expenses due to an increase in operational activity and an increase in interest expense due to additional borrowings on mortgage notes, partially offset by an increase in income generated from our real estate equity and debt investments.

Net cash used in investing activities was $581.9 million for the year ended December 31, 2014 compared to $59.1 million for the year ended December 31, 2013. The increase in net cash flow used in investing activities primarily related to an increase in our new real estate equity and debt investments.

Net cash provided by financing activities was $805.9 million for the year ended December 31, 2014 compared to $104.7 million for the year ended December 31, 2013. The increase in net cash provided by financing activities primarily related to an increase in net proceeds from the issuance of common stock through our Initial Offering and our borrowings from mortgage notes, partially offset by distributions paid on our common stock.

Contractual Obligations and Commitments

The following table presents contractual obligations and commitments as of December 31, 2014 (dollars in thousands):

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Mortgage notes payable	$ 76,000	$ —	$ 2,406	$ 36,190	$ 37,404
Estimated interest payments (1)	13,372	2,572	5,101	4,414	1,285
Total (2) (3)	$ 89,372	$ 2,572	$ 7,507	$ 40,604	$ 38,689

(1) Estimated interest payments are based on the weighted average life of the borrowings. Applicable LIBOR benchmark plus the respective spread as of December 31, 2014 was used to estimate payments for our floating-rate borrowings.
(2) Excludes construction related and other commitments for future development.
(3) Subject to certain restrictions and limitations, our Advisor is responsible for managing our affairs on a day-to-day basis and for identifying, originating, acquiring and asset managing investments on our behalf. For such services, our Advisor receives management fees from us. The table above does not include amounts due under the advisory agreement as those obligations do not have fixed and determinable payments.

Off-Balance Sheet Arrangements

We have certain arrangements which do not meet the definition of off-balance sheet arrangements, but do have some of the characteristics of off-balance sheet arrangements. We have made investments in unconsolidated ventures. Refer to Note 4. “Investments in Unconsolidated Ventures” in “Financial Statements and Supplementary Data” for a discussion of such unconsolidated ventures in our consolidated financial statements. In each case, our exposure to loss is limited to the carrying value of our investment.

We also entered into a limited guarantee with a maximum liability of up to $8.75 million in connection with our pending acquisition of the U.S.-based operations of Extendicare International Inc.

Related Party Arrangements

Advisor

In connection with the completion of NorthStar Realty’s spin-off of its asset management business into our Sponsor, on June 30, 2014, we entered into a new advisory agreement with our Advisor, an affiliate of our Sponsor, on terms substantially similar to those set forth in the prior advisory agreement, and terminated the advisory agreement with our Prior Advisor. For periods prior to June 30, 2014, the information below regarding fees and reimbursements incurred and accrued but not yet paid relates to our Prior Advisor.

Subject to certain restrictions and limitations, our Advisor is responsible for managing our affairs on a day-to-day basis and for identifying, originating, acquiring and 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. Below is a description and table of the fees and reimbursements incurred to our Advisor.

Fees to Advisor

Asset Management Fee

Our Advisor, or its affiliates, receives 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).

Acquisition Fee

Our Advisor, or its affiliates, also receives an acquisition fee equal to 1.0% of the amount funded or allocated by us to acquire or originate investments, including acquisition expenses and any financing attributable to such investments (or our proportionate share thereof in the case of an investment made through a joint venture) except with respect to real estate property and 2.25% of each real estate property acquired by us, including acquisition expenses and any financing attributable to an equity investment (or our proportionate share thereof in the case of an equity investment made through a joint venture). An acquisition fee paid to our Advisor related to the origination or acquisition of debt investments 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. An acquisition fee incurred related to an equity investment will generally be expensed as incurred. An acquisition fee paid to our Advisor related to the acquisition of an equity or debt investment in an unconsolidated joint venture is included in investments in unconsolidated ventures on our consolidated balance sheets. We expense certain acquisition costs and fees associated with transactions deemed to be business combinations in which we consolidate the asset and we capitalize these costs for transactions deemed to be acquisitions of an asset, including an equity investment.

Disposition Fee

For substantial assistance in connection with the sale of investments and based on the services provided, our Advisor, or its affiliates, receives a disposition fee equal to 1.0% of the contract sales price of each debt investment sold and 2.0% of the contract sales price of each property 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, or its affiliates, is entitled to receive reimbursement for direct and indirect operating costs incurred by our Advisor in connection with administrative services provided to us. Indirect operating costs include our allocable share of costs incurred by our Advisor for personnel and other overhead such as rent, technology and utilities. However, there is no reimbursement for personnel costs related to executive officers and other personnel involved in activities for which our Advisor receives an acquisition fee or a disposition fee. 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.

Organization and Offering Costs

Our Advisor, or its affiliates, is entitled to receive reimbursement for organization and offering costs paid on behalf of us in connection with our Offering. We are obligated to reimburse our Advisor, or its affiliates, as applicable, for organization and offering costs to the extent the aggregate of selling commissions, dealer manager fees and other organization and offering costs do not exceed 15% of gross proceeds from our Primary Offering. Our Advisor does not expect reimbursable organization and offering costs, excluding selling commissions and dealer manager fees, to exceed $22.5 million, or 1.5% of the total proceeds available to be raised from our Primary Offering. We shall not reimburse our Advisor for any organization and offering costs that our independent directors determine are not fair and commercially reasonable to us.

Dealer Manager

Selling Commissions and Dealer Manager Fees

Pursuant to a dealer manager agreement, we pay our Dealer Manager selling commissions of up to 7.0% of gross proceeds from our Primary Offering, all of which are reallowed to participating broker-dealers. In addition, we pay our Dealer Manager a dealer manager fee of up to 3.0% of gross proceeds from our Primary Offering, a portion of which is typically reallowed to participating broker-dealers and paid to certain employees of our Dealer Manager. No selling commissions or dealer manager fees are paid for sales pursuant to our DRP.

Summary of Fees and Reimbursements

The following table presents the fees and reimbursements incurred to our Advisor and our Dealer Manager for the years ended December 31, 2014 and 2013 and the amount due to related party as of December 31, 2014 and 2013 (dollars in thousands):

		Years Ended December 31,		Due to Related Party as of December 31,	
Type of Fee or Reimbursement	**Financial Statement Location**	**2014 [(1)]**	**2013**	**2014**	**2013**
Fees to Advisor					
Asset management	Asset management and other fees-related party	$ 3,406	$ 101	$ 6	$ 38
Acquisition [(2)]	Real estate debt investments, net/ Investments in unconsolidated ventures/ Asset management and other fees-related party	21,215	1,346	245	564
Disposition [(2)]	Real estate debt investments, net	—	—	—	—
Reimbursements to Advisor					
Operating costs [(3)]	General and administrative expenses	3,795	189	12	164
Organization	General and administrative expenses	281	82	2	19
Offering [(4)]	Cost of capital [(5)]	4,489	1,549	490	356
Selling commissions / Dealer manager fees	Cost of capital [(5)]	83,655	10,561	—	—
Total				$ 755	$ 1,141

(1) For the year ended December 31, 2014, the aggregate amount of fees and all other costs paid to our Advisor and Prior Advisor was $22.8 million and $10.8 million, respectively.

(2) Acquisition/disposition fees incurred to our Advisor related to debt investments are generally offset by origination/exit fees paid to us by borrowers if such fees are required from the borrower. Acquisition fees related to equity investments are included in asset management and other fees - related party in our consolidated statements of operations. Acquisition fees related to investments in unconsolidated joint ventures are included in investments in unconsolidated ventures on our consolidated balance sheets. Our Advisor may determine to defer fees or seek reimbursement.

(3) As of December 31, 2014, our Advisor and our Prior Advisor incurred unreimbursed operating costs on our behalf and $8.9 million is still allocable. For the year ended December 31, 2014, total operating expenses included in the 2%/25% Guidelines represented 2.0% of average invested assets and 67.5% of net loss without reduction for any additions to reserves for depreciation, loan losses or other similar non-cash reserves.

(4) As of December 31, 2014, our Advisor incurred unreimbursed offering costs in connection with our Follow-on Offering on our behalf and $0.6 million is still allocable.

(5) Cost of capital is included in net proceeds from issuance of common stock in our consolidated statements of equity. For the year ended December 31, 2014, the ratio of offering costs to total capital raised was 10%.

NorthStar Realty Purchase of Common Stock

On April 10, 2014, our board of directors extended the term of our distribution support agreement, or our Distribution Support Agreement, until August 7, 2015. Pursuant to our Distribution Support Agreement, NorthStar Realty committed to purchase up to an aggregate of $10.0 million in shares of our common stock at a price of $9.00 per share during our Initial Offering and at $9.18 per share during our Follow-on Offering, if cash distributions exceed MFFO to provide additional funds to support distributions to stockholders. In February 2013, NorthStar Realty purchased 222,223 shares of our common stock for $2.0 million under our Distribution Support Agreement to satisfy the minimum offering requirement, which reduced the total commitment. As of December 31, 2014, including the purchase of shares to satisfy the minimum offering requirement, NorthStar Realty purchased 303,248 shares of our common stock for $2.7 million and $7.3 million remained outstanding under such commitment. For the years ended December 31, 2014 and 2013, NorthStar Realty purchased 69,857 and 233,391 shares of our common stock for $0.6 million and $2.1 million under such commitment, respectively. For the fourth quarter 2014, NorthStar Realty was not required to purchase shares in connection with our Distribution Support Agreement.

Investments in Joint Ventures

In May 2014, we, through a general partnership with NorthStar Realty, acquired a 5.6% interest in a $1.1 billion healthcare real estate portfolio and contributed $23.4 million of cash for our interest in the investment. The purchase was approved by our board of directors, including all of its independent directors.

In December 2014, we, through a general partnership with NorthStar Realty, acquired an interest in Griffin-American portfolio. We acquired an interest of 14.3% for $187.2 million in cash including our pro rata share of transaction costs. The purchase was approved by our board of directors, including all of our independent directors.

In connection with the acquisition of the Griffin-American portfolio by NorthStar Realty and us, our Sponsor acquired an approximate 44% interest in AHI and Mr. James F. Flaherty III, a strategic partner of our Sponsor and our Vice Chairman, acquired a 9.3% 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 connection with our Sponsor's acquisition of an interest in AHI, AHI provides certain management and related services, including property management, to our Advisor, NorthStar Realty and us. Initially, AHI provides such services to us only with respect to our interest in the Griffin-American portfolio and, following completion of our Offering and full investment of the proceeds, AHI may provide such services to a larger subset or all of our assets. Consequently, AHI will assist our Advisor in managing the Griffin-American portfolio and other current and future healthcare assets owned by us and NorthStar Realty.

Recent Developments

Status of Offering

On February 2, 2015, we completed our Initial Offering and issued 110.5 million shares of common stock resulting in gross proceeds of $1.1 billion.

On February 6, 2015, the registration statement for our Follow-on Offering was declared effective by the SEC and we began raising capital at the end of the month. For the period from February 6, 2015 through March 23, 2015, we issued 1.1 million shares of common stock representing gross proceeds of $10.7 million.

In connection with the effectiveness of our Follow-on Offering, on February 6, 2015, we entered into a new dealer manager agreement with our Dealer Manager, on substantially similar terms to those in effect for our Initial Offering. In addition, we amended and restated our Distribution Support Agreement extending the term of the agreement until February 6, 2017.

Distribution Reinvestment Plan

In January 2015, we reallocated 8.6 million shares from our Initial DRP to our Initial Primary Offering. For the period from inception through March 23, 2015, we issued 2.3 million shares pursuant to our DRP.

Distributions

On March 3, 2015, our board of directors approved a daily cash distribution of $0.00184932 per share of common stock for each of the three months ended June 30, 2015. Distributions are generally paid to stockholders on the first business day of the month following the month for which the distribution was accrued.

Share Repurchases

From January 1, 2015 through March 23, 2015, we repurchased 64,298 shares for a total of $0.6 million or a weighted average price of $9.88 per share under our Share Repurchase Program.

New Borrowings

On January 29, 2015, we obtained four mortgage notes to finance our operating real estate located in Long Island, New York. All closed on substantially similar terms and provide for an aggregate of $93.8 million of financing bearing interest at 3.99%. The mortgage notes payable are non-recourse and mature in January 2025.

New Investments

We, together with Formation Capital, LLC and Safanad Management Limited, agreed to acquire the U.S.-based operations of Extendicare International Inc., a $870.0 million portfolio consisting of 152 SNF and 6 ALF located across 12 states, with the largest concentrations in Indiana, Kentucky, Ohio, Michigan and Wisconsin. We may invest up to $165.0 million, including a $75.0 million mezzanine loan.

Term Loan Facility

On February 19, 2015, we amended the terms of our secured credit facility agreement, whereby our investments in unconsolidated joint ventures will be limited as a percentage of our consolidated total assets.

Inflation

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

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

Non-GAAP Financial Measures

Funds from Operations and Modified Funds from Operations

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

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

Acquisition fees paid to our Advisor in connection with the origination and acquisition of debt investments are amortized over the life of the investment as an adjustment to interest income under U.S. GAAP and are therefore, included in the computation of net income (loss) and income (loss) from operations, both of which are performance measures under U.S. GAAP. Such 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 acquired or originated 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.

Acquisition fees and expenses paid to our Advisor and third parties in connection with the acquisition of equity investments are considered expenses and are included in the determination of net income (loss) and income (loss) from continuing operations, 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 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.

The origination and acquisition of debt investments and the corresponding acquisition fees paid to our Advisor (and any offsetting origination fees received from our borrowers) associated with such activity is a key operating feature of our business plan that results in generating income and cash flow in order to make distributions to our stockholders. Therefore, the exclusion for acquisition fees may be of limited value in calculating operating performance because acquisition fees affect our overall long-term operating performance and may be recurring in nature as part of net income (loss) and income (loss) from operations over our life.

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

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

We define MFFO in accordance with the concepts established by the IPA and adjust for certain items, such as accretion of a discount and amortization of a premium on borrowings and related deferred financing costs, as such adjustments are comparable to adjustments for debt investments and will be helpful in assessing our operating performance. We also adjust MFFO for deferred tax benefit or expense, as applicable, as such items are not indicative of our operating performance. 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 cash flow generated by operations. 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;
- 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. A property's value is considered impaired if our estimate of the aggregate future undiscounted cash flow to be generated by the property is less than the carrying value of the property. 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 our estimate of the aggregate future undiscounted cash flow to be generated by the property is less than the carrying value of the property. The value of our investments may be impaired and their carrying values may not be recoverable due to our limited life. Investors should note that while impairment charges are excluded from the calculation of MFFO, investors are cautioned that due to the fact that impairments are based on estimated future undiscounted cash flow and the relatively limited term of a non-traded REIT's anticipated operations, it could be difficult to recover any impairment charges through operational net revenues or cash flow prior to any liquidity event.

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

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

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

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

	Years Ended December 31,	
	2014	**2013**
Funds from operations:		
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (14,945)	$ (2,560)
Adjustments:		
Depreciation and amortization	4,291	132
Depreciation and amortization related to unconsolidated ventures	3,390	—
Depreciation and amortization related to non-controlling interests	(62)	—
Funds from operations	$ (7,326)	$ (2,428)
Modified funds from operations:		
Funds from operations	$ (7,326)	$ (2,428)
Adjustments:		
Acquisition fees and transaction costs	8,207	2,814
Straight-line rental (income) loss	(1,149)	(53)
Amortization of premiums, discounts and fees on investments and borrowings, net	906	31
Deferred tax (benefit) expense	(1,415)	—
Adjustments related to unconsolidated ventures	11,884	—
Adjustments related to non-controlling interests	(34)	(9)
Realized gain (loss)	156	—
Modified funds from operations	$ 11,229	$ 355

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, 2014, we paid distributions at an annualized distribution rate of 6.75% based on a purchase price of $10.00 per share of our common stock. 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 years ended December 31, 2014 and 2013 (dollars in thousands):

	Years Ended December 31,			
	2014		2013	
Distributions [1]				
Cash	$ 11,897		$ 671	
DRP	14,744		641	
Total[2]	$ 26,641		$ 1,312	
Sources of Distributions [1]				
Funds from Operations[2]	$ —	—%	$ —	—%
Offering Proceeds - Distribution Support [3]	$ 629	2%	$ 100	8%
Offering Proceeds - Other	26,012	98%	1,212	92%
Total Offering Proceeds	$ 26,641	100%	$ 1,312	100%
Cash Flow Provided by (Used in) Operations	$ (1,920)		$ (342)	

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

(2) For the period from the date of our first investment on April 5, 2013 through December 31, 2014, we declared $28.0 million in distributions. Cumulative funds from operations for the period from April 5, 2013 through December 31, 2014 were negative $9.8 million. No funds from operations were used to pay distributions for the years ended December 31, 2014 and 2013.

(3) Excluding NorthStar Realty's purchase of 222,223 shares of our common stock for $2.0 million under our Distribution Support Agreement to satisfy the minimum offering requirement.

Distributions in excess of our cash flow used in operations were paid using Offering proceeds, including from the purchase of additional shares by NorthStar Realty. Over the long-term, we expect that our distributions will be paid entirely from cash flow provided by operations. However, our operating performance cannot be accurately predicted and may deteriorate in the future due to numerous factors, including our ability to raise and invest capital at favorable yields, the financial performance of our investments in the current real estate and financial environment, the type and mix of our investments and accounting of our investments in accordance with U.S. GAAP. Future distributions declared and paid may exceed cash flow provided by operations. To the extent distributions are paid from sources other than FFO, the ownership interest of our public stockholders will be diluted.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

Changes in interest rates affect our net interest income, which is the difference between the income earned on our investments and the interest expense incurred in connection with our borrowings and derivatives, if any.

Our debt and securities investments bear interest at either a floating or fixed-rate. The interest rate on our floating-rate assets is a fixed spread over an index such as LIBOR and typically reprices every 30 days based on LIBOR in effect at the time. Currently, some of our floating-rate debt investments have a fixed minimum LIBOR rate that is in excess of current LIBOR. We will not benefit from an increase in LIBOR until it is in excess of the LIBOR floors. Given the frequent and periodic repricing of our floating-rate assets, changes in benchmark interest rates are unlikely to materially affect the value of our floating-rate portfolio. Changes in short-term rates will, however, affect income from our investments. As of December 31, 2014, some of our floating-rate investments had LIBOR floors in excess of the current LIBOR rate, so a hypothetical 100 basis point increase in interest rates (including the effect of the interest rate floor) would increase income by $0.6 million annually.

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. We had no fixed-rate debt investments as of December 31, 2014.

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. Treasury 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

Credit risk in our debt and securities investments relates to each individual borrower's ability to make required interest and principal payments on scheduled due dates. We seek to manage credit risk through our Advisor's comprehensive credit analysis prior to making an investment, actively monitoring our portfolio and the underlying credit quality, including subordination and diversification of our portfolio. Our analysis is based on a broad range of real estate, financial, economic and borrower-related factors which we believe are critical to the evaluation of credit risk inherent in a transaction. For the year ended December 31, 2014, four debt investments each contributed more than 10% of interest income.

We are subject to the credit risk of the lessee of operators of our healthcare properties. We undertake a rigorous credit evaluation of each healthcare operator prior to acquiring healthcare properties. This analysis includes an extensive due diligence investigation of the operator's business as well as an assessment of the strategic importance of the underlying real estate to the operator's core business operations. Where appropriate, we may seek to augment the operator's commitment to the facility by structuring various credit enhancement mechanisms into the underlying leases. These mechanisms could include security deposit requirements or guarantees from entities we deem creditworthy. In addition, we actively monitor lease coverage at each facility within our healthcare portfolio. However, approximately 1% of our operator revenues, excluding indirect operating revenues generated through our unconsolidated joint venture investments, are derived from government sources, notably Medicare or Medicaid. Previously announced and potential future changes to these programs may have a material impact on the valuation and financial performance of this portion of our portfolio.

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 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, our 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 our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15 (e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our 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 our periodic reports.

Internal Control over Financial Reporting

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

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

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we carried out an evaluation of the effectiveness of its internal control over financial reporting as of December 31, 2014 based on the "Internal Control-Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based upon this evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2014.

(b) Changes in Internal Control over Financial Reporting.

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

Inherent Limitations on Effectiveness of Controls

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

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

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FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

NorthStar Healthcare Income, Inc.

We have audited the accompanying consolidated balance sheets of NorthStar Healthcare Income, Inc. (a Maryland corporation) and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for each of the two years in the period ended December 31, 2014. Our audits of the basic consolidated financial statements included the financial statement schedules listed in the index appearing under Item 15(a)(2). These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NorthStar Healthcare Income, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ GRANT THORNTON LLP

New York, New York

March 27, 2015

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

	December 31, 2014	December 31, 2013
Assets		
Cash	$ 267,672	$ 45,537
Restricted cash	8,706	1,883
Operating real estate, net	259,409	53,969
Investments in unconsolidated ventures (refer to Note 4)	215,175	—
Real estate debt investments, net	146,267	11,250
Receivables, net	10,161	947
Deferred costs and other assets, net	11,359	2,253
Total assets	$ 918,749	$ 115,839
Liabilities		
Mortgage notes payable	$ 76,000	$ 18,282
Due to related party	755	1,141
Escrow deposits payable	2,385	1,795
Distribution payable	4,794	557
Accounts payable and accrued expenses	2,830	569
Total liabilities	86,764	22,344
Commitments and contingencies		
Equity		
NorthStar Healthcare Income, Inc. Stockholders' Equity		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding as of December 31, 2014 and 2013	—	—
Common stock, $0.01 par value, 400,000,000 shares authorized, 97,971,587 and 10,985,230 shares issued and outstanding as of December 31, 2014 and 2013, respectively	980	110
Additional paid-in capital	875,205	97,055
Retained earnings (accumulated deficit)	(45,458)	(3,872)
Total NorthStar Healthcare Income, Inc. stockholders' equity	830,727	93,293
Non-controlling interests	1,258	202
Total equity	831,985	93,495
Total liabilities and equity	$ 918,749	$ 115,839

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars and Shares in Thousands, Except Per Share Data)

	Years Ended December 31,	
	2014	**2013**
Revenues		
Resident fee income	$ 14,511	$ 38
Rental income	8,038	488
Interest income	7,490	375
Total revenues	30,039	901
Expenses		
Property operating expenses	10,810	24
Interest expense	2,981	98
Transaction costs	3,405	1,570
Asset management and other fees - related party	8,220	1,334
General and administrative expenses	4,418	313
Depreciation and amortization	4,291	132
Total expenses	34,125	3,471
Other income (loss)		
Realized gain (loss)	(156)	—
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	(4,242)	(2,570)
Equity in earnings (losses) of unconsolidated ventures	(12,127)	—
Income tax benefit (expense)	1,390	—
Net income (loss)	(14,979)	(2,570)
Net (income) loss attributable to non-controlling interests	34	10
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (14,945)	$ (2,560)
Net income (loss) per share of common stock, basic/diluted	$ (0.38)	$ (1.26)
Weighted average number of shares of common stock outstanding, basic/diluted	39,805	2,026

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in Thousands)

	Years Ended December 31,	
	2014	2013
Net income (loss)	$ (14,979)	$ (2,570)
Comprehensive income (loss)	(14,979)	(2,570)
Comprehensive (income) loss attributable to non-controlling interests	34	10
Comprehensive income (loss) attributable to NorthStar Healthcare Income, Inc.	$ (14,945)	$ (2,560)

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)	Total Company's Stockholders' Equity	Non-controlling Interests	Total Equity
	Shares	Amount					
Balance as of December 31, 2012	22	$ —	$ 200	$ —	$ 200	$ 2	$ 202
Net proceeds from issuance of common stock (refer to Note 7)	10,905	110	96,486	—	96,596	—	96,596
Issuance and amortization of equity-based compensation	23	—	32	—	32	—	32
Non-controlling interest - contributions	—	—	—	—	—	210	210
Distributions declared	—	—	—	(1,312)	(1,312)	—	(1,312)
Proceeds from distribution reinvestment plan	35	—	337	—	337	—	337
Net income (loss)	—	—	—	(2,560)	(2,560)	(10)	(2,570)
Balance as of December 31, 2013	10,985	$ 110	$ 97,055	$ (3,872)	$ 93,293	$ 202	$ 93,495
Net proceeds from issuance of common stock	85,691	857	765,872	—	766,729	—	766,729
Issuance and amortization of equity-based compensation	8	—	60	—	60	—	60
Non-controlling interests - contributions	—	—	—	—	—	1,090	1,090
Shares redeemed for cash	(14)	—	(142)	—	(142)	—	(142)
Distributions declared	—	—	—	(26,641)	(26,641)	—	(26,641)
Proceeds from distribution reinvestment plan	1,302	13	12,360	—	12,373	—	12,373
Net income (loss)	—	—	—	(14,945)	(14,945)	(34)	(14,979)
Balance as of December 31, 2014	97,972	$ 980	$ 875,205	$ (45,458)	$ 830,727	$ 1,258	$ 831,985

Refer to accompanying notes to consolidated financial statements.

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

	Years Ended December 31,	
	2014	2013
Cash flows from operating activities:		
Net income (loss)	$ (14,979)	$ (2,570)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Equity in (earnings) losses of unconsolidated ventures	12,127	—
Depreciation and amortization	4,291	132
Straight-line rental income	(1,149)	(53)
Amortization of premium/accretion of discount on investments	141	—
Amortization of deferred financing costs	605	31
Amortization of equity-based compensation	60	32
Income tax benefit	(1,415)	—
Realized gain (loss)	156	—
Distributions from unconsolidated ventures (refer to Note 4)	199	—
Changes in assets and liabilities:		
Restricted cash	(2,108)	(180)
Receivables, net	(980)	(64)
Other assets	(154)	(67)
Due to related party	(876)	785
Escrow deposits payable	570	1,044
Accounts payable and accrued expenses	1,592	568
Net cash provided by (used in) operating activities	(1,920)	(342)
Cash flows from investing activities:		
Acquisition of operating real estate investments	(207,974)	(46,287)
Improvement of operating real estate investments	(1,524)	—
Origination of real estate debt investments	(20,024)	—
Acquisition of real estate debt investments	(120,521)	(11,250)
Investment in unconsolidated ventures (refer to Note 4)	(225,380)	—
Distributions from unconsolidated ventures (refer to Note 4)	3,458	—
Change in restricted cash	(4,472)	(428)
Other assets	(5,442)	(1,104)
Net cash provided by (used in) investing activities	(581,879)	(59,069)
Cash flows from financing activities:		
Borrowing from mortgage notes	65,500	10,500
Repayment of mortgage notes	(7,782)	(31)
Payment of deferred financing costs	(2,612)	(1,114)
Change in restricted cash	(223)	(524)
Net proceeds from issuance of common stock	759,492	94,052
Net proceeds from issuance of common stock, related party	642	2,071
Shares redeemed for cash	(142)	—
Distributions paid on common stock	(22,404)	(755)
Proceeds from distribution reinvestment plan	12,373	337
Contributions from non-controlling interests	1,090	210
Net cash provided by (used in) financing activities	805,934	104,746
Net increase (decrease) in cash	222,135	45,335
Cash - beginning of period	45,537	202
Cash - end of period	$ 267,672	$ 45,537

Refer to accompanying notes to consolidated financial statements.

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

	Years Ended December 31,	
	2014	2013
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 1,750	$ 24
Cash paid for income taxes	21	—
Supplemental disclosure of non-cash investing and financing activities:		
Accrued cost of capital (refer to Note 7)	1,333	448
Subscriptions receivable, gross	8,758	921
Escrow deposits related to investments	46	729
Distribution payable	4,794	557
Conversion of real estate debt investment to investment in unconsolidated venture	5,387	—
Mortgage notes assumed	—	7,813
Accrued capital expenditures	228	—
Other liabilities	191	—

Refer to accompanying notes to consolidated financial statements.

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, predominantly in the United States, which the Company defines as assisted living ("ALF"), memory care ("MCF"), skilled nursing ("SNF") and independent living ("ILF") facilities that have an emphasis on private pay patients although many of these facilities may also rely on public pay patients. The Company may also invest in equity and debt investments in other healthcare property types, including medical office buildings ("MOB"), hospitals and rehabilitation facilities. The Company may also invest internationally. In addition, the Company may acquire healthcare-related securities. 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 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.

The Company's equity investments are generally in the form of lease or management transactions whereby the Company purchases a property and enters into a long-term lease or management agreement with an operator responsible for contractual payments to the Company. The Company enters into structures permitted by the REIT Investment Diversification and Empowerment Act of 2007 ("RIDEA"), whereby it participates directly in the operational cash flow of a property. The Company's debt investments generally consist of first mortgage loans, subordinate mortgages, mezzanine loans, preferred equity investments and participations in such investments.

The Company is externally managed and has no employees. Prior to June 30, 2014, the Company was managed by an affiliate of NorthStar Realty Finance Corp. (NYSE: NRF) ("NorthStar Realty"). Effective June 30, 2014, NorthStar Realty spun-off its asset management business into a separate publicly traded company, NorthStar Asset Management Group Inc. (NYSE: NSAM) (the "Sponsor"). The Sponsor and its affiliates provide asset management and other services to the Company, NorthStar Realty, other sponsored public non-traded companies and any other companies the Sponsor and its affiliates may manage in the future (collectively, the "NSAM Managed Companies"), both in the United States and internationally. Concurrent with the spin-off, affiliates of the Sponsor entered into a new advisory agreement with the Company and each of the other NSAM Managed Companies. Pursuant to the Company's advisory agreement, NSAM J-NSHC Ltd, an affiliate of the Sponsor (the "Advisor"), agreed to manage the day-to-day operations of the Company on terms substantially similar to those set forth in the Company's prior advisory agreement with NorthStar Healthcare Income Advisor, LLC (the "Prior Advisor"). References to the "Prior Advisor" herein refer to the services performed by and fees paid and accrued to the Prior Advisor during the period prior to June 30, 2014. The spin-off of NorthStar Realty's asset management business had no impact on the Company's operations.

Substantially all business is conducted through NorthStar Healthcare Income Operating Partnership, LP (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. The limited partners of the Operating Partnership are NorthStar Healthcare Income Advisor, LLC and NorthStar Healthcare Income OP Holdings, LLC (the "Special Unit Holder"), each an affiliate of the Sponsor. An affiliate of the Sponsor 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 has been issued a separate class of limited partnership units (the "Special Units"), which are collectively recorded as non-controlling interests on the consolidated balance sheets as of December 31, 2014 and 2013. As the Company accepts subscriptions for shares, it contributes substantially all of the net proceeds to the Operating Partnership as a capital contribution. As of December 31, 2014, the Company's limited partnership interest in the Operating Partnership was 99.9%.

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 initially registered to offer up to 100.0 million shares pursuant to the primary offering (the "Initial Primary Offering") and up to 10.5 million shares pursuant to the distribution reinvestment plan (the "Initial DRP"), which are herein collectively referred to as the Initial Offering. In December 2014, the board of directors of the Company authorized the reallocation of 8.6 million shares available under the Initial DRP to the Initial Primary Offering. On February 2, 2015, the Company successfully completed its Initial Offering by raising $1.1 billion.

On February 6, 2015, the Company's registration statement on Form S-11 was declared effective by the Securities and Exchange Commission (the "SEC") for a follow-on public offering (the "Follow-on Offering") of up to $700.0 million which includes up to $500.0 million in shares pursuant to its follow-on primary offering (the "Follow-on Primary Offering") and up to $200.0 million in shares pursuant to its follow-on distribution reinvestment plan (the "Follow-on DRP"). The Company reserves the right to reallocate shares of its common stock being offered between the Follow-on Primary Offering and the Follow-on DRP. The Company expects the Follow-on Offering to terminate on the earlier of two years following the effective date or once the maximum number of shares offered are sold. However, the board of directors may determine to terminate the Offering at any time. The Company began raising capital from the Follow-on Offering at the end of February 2015.

The Initial Primary Offering and the Follow-On Primary Offering are collectively referred to as the Primary Offering and the Initial DRP and the Follow-on DRP as the DRP. Additionally, the Primary Offering and the DRP are collectively referred to as the Offering.

The Company retained NorthStar Realty Securities, LLC (the "Dealer Manager"), formerly a subsidiary of NorthStar Realty that became a subsidiary of the Sponsor upon completion of the spin-off, to serve as the dealer manager for the Primary Offering.

On February 11, 2013, the Company commenced operations by satisfying the minimum offering requirement in its Initial Primary Offering as a result of NorthStar Realty purchasing 222,223 shares of common stock for $2.0 million. From inception through March 23, 2015, the Company raised total gross proceeds of $1.1 billion pursuant to the Offering.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying consolidated financial statements and related notes of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The Company did not have operations for the year ended December 31, 2012 and, therefore, does not present consolidated statements of operations or consolidated statements of cash flows for the respective period.

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 ("VIE"), if any, 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.

<u>Variable Interest Entities</u>

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, if any, to determine whether they are a VIE. The Company analyzes new investments and financings, as well as reconsideration events for existing investments and financings, which vary depending on type of investment or financing. As of December 31, 2014, the Company has not identified any VIEs related to its investments or financing.

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.

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

Non-controlling, unconsolidated ownership interests in an entity may be accounted for using the equity method, at fair value or the cost method.

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 expenses 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.

The Company may account for an investment in an unconsolidated entity at fair value by electing the fair value option. The Company may account for investments that do not qualify for equity method accounting or for which the fair value option was not elected using the cost method if the Company determines the investment in the unconsolidated entity is insignificant. Under the cost method, equity in earnings is recorded as dividends are received to the extent they are not considered a return of capital, which is recorded as a reduction of cost of the 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 preferred returns and allocation formulas, 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.

Reclassifications

Certain prior period amounts have been reclassified in the consolidated financial statements to conform to current period presentation.

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").

Cash

The Company considers all highly-liquid investments with a remaining maturity date of three months or less to be cash. 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 with major financial institutions. To date, the Company has not experienced any losses on cash.

Restricted Cash

Restricted cash consists of amounts related to operating real estate (escrows for taxes, insurance, capital expenditures, tenant/ operator security deposits, payments required under certain lease agreements) and loan origination (escrow deposits).

Operating Real Estate

The Company follows the purchase method for an acquisition of operating real estate, where the purchase price is allocated to tangible assets such as land, building, furniture and fixtures, improvements and other identified intangibles. 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	40 years
Building improvements	Lesser of the useful life or remaining life of the building
Tenant improvements	Lesser of the useful life or remaining term of the lease
Furniture and fixtures	7 to 10 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.

The following table presents future minimum rental income under leases and excludes income generated through the structure permitted by RIDEA as of December 31, 2014 (dollars in thousands):

Years Ending December 31:	
2015	$ 13,108
2016	13,736
2017	14,474
2018	14,549
2019	14,913
Thereafter	134,800
Total	$ 205,580

Real Estate Debt Investments

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 loan loss reserve, if deemed appropriate, which approximates 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 value.

Real Estate Securities

The Company classifies its securities investments as available for sale on the acquisition date, which are carried at fair value. Unrealized gains (losses) are recorded as a component of accumulated OCI in the consolidated statements of equity. However, the Company may elect the fair value option for certain of its available for sale securities, and as a result, any unrealized gains (losses) on such securities are recorded in unrealized gain (loss) on investments and other in the consolidated statements of operations.

Deferred Costs

Deferred costs 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 amortized to interest expense over the term of the financing using either the effective interest method or straight-line method depending on the type of financing. Unamortized deferred financing costs are generally expensed when the associated borrowing is refinanced or repaid before maturity. Costs incurred in seeking financing transactions, which do not close, are expensed in the period such financing transaction was terminated. 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 is recorded to depreciation and amortization in the consolidated statements of operations.

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 directors, including independent directors. For the year ended December 31, 2014, total acquisition fees and expenses did not exceed the allowed limit for any investment. An acquisition fee paid to the Advisor related to the origination or acquisition of debt investments 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. 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. The Company expenses 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.

Revenue Recognition

<u>Operating Real Estate</u>

Rental and escalation income from operating real estate is derived from leasing of space to various types of tenants and healthcare operators. The leases are for fixed terms of varying length and generally provide for annual rentals 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 rent recognized over the amount contractually due pursuant to the underlying leases is included in receivables on the consolidated balance sheets. 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, as applicable. This revenue is accrued in the same period as the expenses are incurred.

The Company also generates operating income from healthcare properties under a RIDEA structure. Revenue related to healthcare properties includes resident room and care charges and other resident charges.

<u>Real Estate Debt Investments</u>

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 loan is reclassified to held for sale.

<u>Real Estate Securities</u>

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

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 and 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 on operating real estate in the consolidated statements of operations.

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

Loans are considered impaired when, based on current information and events, it is probable that the Company will not be able to collect principal and interest amounts due according to the contractual terms. The Company assesses the credit quality of the portfolio and adequacy of loan loss 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 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 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 loan, a loan loss reserve is recorded with a corresponding charge to provision for loan losses. The loan loss reserve for each loan is maintained at a level that is determined to be adequate by management to absorb probable losses.

Income recognition is suspended for a loan 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 loan is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the principal of an impaired loan 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 loan becomes contractually current and performance is demonstrated to be resumed. A loan is written off when it is no longer realizable and/or legally discharged. As of December 31, 2014, the Company did not have any impaired real estate debt investments.

Real Estate 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. Impairment of a security is considered to be other-than-temporary when: (i) the holder has the intent to sell the impaired security; (ii) it is more likely than not the holder will be required to sell the security; or (iii) the holder does not expect to recover the entire amortized cost of the security. When a security has been deemed to be other-than-temporarily impaired due to (i) or (ii), the security is written down to its fair value and an OTTI is recognized in the consolidated statements of operations. In the case of (iii), the security is written down to its fair value and the amount of OTTI is then bifurcated into: (a) the amount related to expected credit losses; and (b) the amount related to fair value adjustments in excess of expected credit losses. The portion of OTTI related to expected credit losses is recognized in the consolidated statements of operations. The remaining OTTI related to the valuation adjustment is recognized as a component of accumulated OCI in the consolidated statements of equity. The portion of OTTI recognized through earnings is accreted back to the amortized cost basis of the security through interest income, while amounts recognized through OCI are amortized over the life of the security with no impact on earnings. Real estate securities which are not high-credit quality are considered to have an OTTI if the security has an unrealized loss and there has been an adverse change in expected cash flow. The amount of OTTI is then bifurcated as discussed above.

Organization and Offering Costs

The Advisor, or its affiliates, is entitled to receive reimbursement for costs paid on behalf of the Company in connection with the Offering. The Company is obligated to reimburse the Advisor for organization and offering costs to the extent the aggregate of selling commissions, dealer manager fees and other organization and offering costs do not exceed 15% of gross offering proceeds from the Primary Offering. The Advisor does not expect reimbursable organization and offering costs to exceed $22.5 million, or 1.5% of the total proceeds available to be raised from the Primary Offering. The Company records organization and offering costs each period based upon an allocation determined by the expectation of total organization and offering costs to be reimbursed. Organization costs are recorded as an expense in general and administrative expenses in the consolidated statements of operations and offering costs are recorded as a reduction to equity.

Equity-Based Compensation

The Company accounts for its 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 expense 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 of 1986, as amended. Accordingly, the Company will generally not be subject to U.S. federal income tax to the extent of its distributions to stockholders and 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% of its REIT taxable income to its stockholders and meet certain other requirements. 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. If the Company were to fail to meet these requirements, it would be subject to U.S. federal income tax, which could have a material adverse impact on its results of operations and amounts available for distributions to its stockholders. 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.

The Company maintains a taxable REIT subsidiary ("TRS") which may be subject to U.S. federal, state and local income taxes and foreign 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. A TRS is subject to regular corporate income tax. The Company has established a TRS in a jurisdiction for which no taxes are assessed on corporate earnings. However, the Company must include in earnings the income from the TRS even if it has received no cash distributions.

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. As of December 31, 2014, the Company recorded a $1.4 million deferred tax asset in deferred costs and other assets, net on the consolidated balance sheets due to the timing of contractual lease payments related to the Company's healthcare RIDEA properties. The Company recorded $25,799 and an immaterial amount of current income tax expense for the years ended December 31, 2014 and 2013, respectively.

From time-to-time, the Company's TRS may generate taxable income from intercompany transactions. The TRS entities generate taxable revenue from fees for services provided by the Company's healthcare facilities. Certain entities may be consolidated in the Company's financial statements. All income taxes are accrued by the TRS in the year in which the taxable revenue is received. These income taxes are not eliminated when the related revenue is eliminated in consolidation.

The TRS entities may be subject to tax laws that are complex and potentially subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. In establishing a provision for income tax expense, the Company must make judgments and interpretations about the application of these inherently complex tax laws. Actual income taxes paid may vary from estimates depending upon changes in income tax laws, actual results of operations and the final audit of tax returns by taxing authorities. Tax assessments may arise several years after tax returns have been filed. The Company reviews the tax balances of its TRS entities quarterly and as new information becomes available, the balances are adjusted as appropriate.

The Company has assessed its tax positions for all open tax years, which includes 2012 to 2014 and concluded there were no material uncertainties to be recognized. The Company's accounting policy with respect to interest and penalties is to classify these amounts as interest expense. The Company has not recognized any such amounts related to uncertain tax positions for the years ended December 31, 2014 and 2013.

Recent Accounting Pronouncements

In May 2014, the FASB issued an accounting update 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. When it becomes effective on January 1, 2017, the accounting standard update will replace most of the existing revenue recognition guidance currently promulgated by U.S. GAAP. The Company is in the process of evaluating the impact, if any, of the update on its consolidated financial statements and related disclosures.

In February 2015, the FASB issued updated guidance that changes the rules regarding consolidation. The pronouncement eliminates specialized guidance for limited partnerships and similar legal entities and removes the indefinite deferral for certain investment funds. The new guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with early adoption permitted. The Company is currently assessing the impact of the guidance on its consolidated financial position, results of operations and financial statement disclosures.

3. Operating Real Estate

The following table presents operating real estate, net as of December 31, 2014 and 2013 (dollars in thousands):

	As of December 31,	
	2014	2013
Land	$ 20,035	$ 4,315
Buildings and improvements	235,544	48,020
Construction in progress	1,320	—
Furniture and fixtures	6,927	1,765
Subtotal	263,826	54,100
Less: Accumulated depreciation	(4,417)	(131)
Operating real estate, net	$ 259,409	$ 53,969

For the years ended December 31, 2014 and 2013, depreciation expense was $4.3 million and $0.1 million, respectively.

The following table summarizes operating real estate acquisitions for the year ended December 31, 2014 (dollars in thousands):

Acquisition Date	Type (1)	Portfolio	Amount (2) (3)	Properties	Units	Location	Financing	Equity (4)	Ownership Interest	Transaction Costs
Operating Real Estate - RIDEA										
January 2014	ALF	Watermark	$ 34,532	1	183	Denver, CO	$ 21,500	$ 12,697	97%	$ 388
February 2014	ILF	Watermark	42,383	1	202	Frisco, TX	20,000	21,921	97%	418
Total			76,915	2	385		41,500	34,618		806
Operating Real Estate - Net Lease										
February 2014	ALF	Peregrine (5)	12,500	1	100	Cheektowaga, NY	8,612	4,304	100%	140
September 2014	ALF	Arbors (6)	125,130	4	570	Long Island, NY	—	126,226	100%	1,612
Total			137,630	5	670		8,612	130,530		1,752
Grand Total			$ 214,545	7	1055		$ 50,112	$ 165,148		$ 2,558

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

(2) Includes net purchase price allocation related to net intangibles, deferred costs, other assets, if any, and adjusted for subsequent capital expenditures.
(3) Excludes the Company's interest in properties held through unconsolidated joint ventures of $215.2 million.
(4) Represents the Company's share of equity.
(5) In December 2014, the property was financed (refer to note 6).
(6) Each facility in the Arbors Portfolio is 100% leased to Arcadia Management, Inc. ("Arcadia") pursuant to a 15-year, cross-default net lease, whereby the tenant, Arcadia, is responsible for substantially all of the operating expenses at each facility. From acquisition in September 2014 through December 31, 2014, the Company recognized $0.7 million of net income from Arbors Portfolio.

The following table presents unaudited consolidated pro forma results of operations based on the Company's historical financial statements and adjusted for the individually significant acquisition during the year ended December 31, 2014 of the Arbors Portfolio, as if it occurred on January 1, 2013. The unaudited pro forma amounts were prepared for comparative purposes only and are not indicative of what actual consolidated results of operations of the Company would have been, nor are they indicative of the consolidated results of operations in the future and exclude transaction costs (dollars in thousands, expect per share):

	Years Ended December 31,	
	2014	2013
Pro forma total revenues	$ 37,360	$ 11,523
Pro forma net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	(9,825)	4,902
Pro forma net income (loss) per share of common stock, basic/diluted	$ (0.25)	$ 2.42

The Company estimated the fair value of the assets and liabilities for all real estate acquired at the date of acquisition. The following table presents the preliminary allocation of purchase price of the operating real estate assets acquired and liabilities assumed for acquisitions in 2014 that continue to be subject to refinement upon receipt of all information (dollars in thousands):

Assets:	
Land	$ 8,020
Buildings and improvements	113,830
Other assets acquired (1)	3,280
Total assets acquired	$ 125,130
Liabilities:	
Other liabilities assumed (2)	$ 35
Total liabilities	35
Total NorthStar Healthcare Income, Inc. stockholders' equity	125,095
Total equity	125,095
Total liabilities and equity	$ 125,130

(1) Primarily includes furniture and fixtures and accounts receivable.
(2) Primarily includes deposits payable.

The following table presents the final allocation of the purchase price of the assets acquired and liabilities assumed or issued (including financing entered into contemporaneous with the acquisition) for acquisitions in 2013 and the first quarter of 2014 (dollars in thousands):

Assets:	
Land	$ 12,015
Buildings and improvements	128,193
Other assets acquired (1)	3,665
Total assets acquired	$ 143,873
Liabilities:	
Mortgage notes payable	$ 59,813
Other liabilities assumed (2)	1,563
Total liabilities	61,376
Total NorthStar Healthcare Income, Inc. stockholders' equity	81,292
Non-controlling interests	1,205
Total equity	82,497
Total liabilities and equity	$ 143,873

(1) Primarily includes deferred costs and escrowed amounts, as applicable.
(2) Primarily includes prepaid rent and security deposits.

4. Investments in Unconsolidated Ventures

The following is a description of the Company's investments in unconsolidated ventures, all of which are accounted for under the equity method.

Eclipse Joint Venture

In May 2014, the Company, through a general partnership with NorthStar Realty (refer to Note 7), entered into a joint venture with an affiliate of Formation Capital, LLC to acquire an interest in a $1.1 billion healthcare real estate portfolio comprised of over 8,500 units/beds across 44 ALFs and 36 SNFs, located primarily in Florida, Illinois, Oregon and Texas ("Eclipse"). The Company contributed $23.4 million for a 5.6% interest in the joint venture. As of December 31, 2014, the carrying value of the Company's investment was $20.7 million, including $1.3 million of capitalized acquisition costs. From acquisition through December 31, 2014, the Company recognized $0.7 million of equity in losses, of which $0.8 million represented operating and other income, offset by $1.5 million related to transaction costs and depreciation and amortization expense.

Envoy Joint Venture

In June 2014, the Company made a subordinate interest investment of $5.0 million which was exchanged for an 11.4% interest in a joint venture, in the form of a general partnership, with affiliates of Formation Capital, LLC and Safanad Management Limited ("Envoy") in September 2014. The joint venture owns a $145.0 million portfolio, subject to certain earn-out provisions, of 14 SNFs comprised of 1,658 beds and located in Virginia, Maryland and Pennsylvania. As of December 31, 2014, the carrying value of the Company's investment was $5.4 million, including $0.4 million of capitalized acquisition costs. From acquisition through December 31, 2014, the Company recognized $0.2 million of equity in earnings, of which $0.4 million represented operating and other income, offset by $0.2 million related to transaction costs and depreciation and amortization expense.

Griffin-American Joint Venture

In December 2014, the Company, through a general partnership with NorthStar Realty (refer to Note 7), acquired an interest in Griffin-American Healthcare REIT II, Inc.'s ("Griffin-American") healthcare real estate portfolio following completion of the merger of Griffin-American with and into a subsidiary of NorthStar Realty. In connection with the merger, the Company acquired a 14.3% interest in the joint venture for $187.2 million in cash, including a pro rata share of transaction costs. The Griffin-American joint venture portfolio includes 296 healthcare real estate properties located throughout the United States and in the United Kingdom, including 146 MOBs, 91 senior housing facilities, 45 SNFs and 14 hospitals. The portfolio includes 44 senior housing facilities in the United Kingdom, which represents 12% of the total portfolio.

As of December 31, 2014, the carrying value of the Company's investment was $189.1 million, including $13.3 million of capitalized acquisition costs. From acquisition through December 31, 2014, the Company recognized $11.6 million of equity in losses, of which $0.9 million represented operating and other income, offset by $12.5 million related to transaction costs and depreciation and amortization expense.

Summarized Financial Data

The combined balance sheet and statement of operations for the unconsolidated ventures as of December 31, 2014 and from acquisition date through the year ended December 31, 2014 are as follows (dollars in thousands):

	December 31, 2014		Year Ended December 31, 2014
Assets			
Operating real estate, net	$ 4,827,678	Total revenues	$ 130,034
Other assets	818,866		
Total assets	$ 5,646,544	Property operating expenses	62,949
		Transaction costs	81,065
Liabilities and equity		Interest expense	40,701
Mortgage notes payable	$ 3,778,599	Depreciation and amortization	36,156
Other liabilities	270,056	Total expenses	220,871
Equity	1,597,889		
Total liabilities and equity	5,646,544	Net income (loss)	$ (90,837)
Net investment in unconsolidated ventures	$ 215,175	Equity in earnings (losses) of unconsolidated ventures	$ (12,127)

The Company did not have any unconsolidated ventures for the year ended December 31, 2013.

5. Real Estate Debt Investments

The following table presents debt investments as of December 31, 2014 (dollars in thousands):

					Weighted Average		
Asset Type:	**Number**	**Principal Amount**	**Carrying Value**	**Allocation by Investment Type (1)**	**Spread over LIBOR (2)**	**Total Unleveraged Current Yield**	**Floating Rate as % of Principal Amount**
First mortgage loans (3)	2	$ 25,887	$ 25,887	17.7%	8.1%	8.3%	100.0%
Mezzanine loans	2	120,000	120,380	82.3%	10.2%	10.4%	100.0%
Total/Weighted Average	4	$ 145,887	$ 146,267	100.0%	9.8%	10.0%	100.0%

(1) Based on principal amount.
(2) Includes a fixed minimum London Interbank Offered Rate ("LIBOR") rate, as applicable.
(3) As of December 31, 2014, all first mortgage loans were subject to a minimum LIBOR rate ("LIBOR floor") with the weighted average of 0.6%.

For the year ended December 31, 2014, the Company invested in three loans with a principal amount of $134.6 million.

The following table presents debt investment as of December 31, 2013 (dollars in thousands):

				Weighted Average		
Asset Type:	**Number**	**Principal Amount**	**Carrying Value**	**Spread Over LIBOR (1)**	**Total Unleveraged Current Yield**	**Floating Rate as % of Principal Amount**
First mortgage loan	1	$ 11,250	$ 11,250	8.0%	8.1%	100.0%

(1) As of December 31, 2013, the first mortgage loan was subject to a LIBOR floor of 1.0%.

The following table presents maturities of debt investments based on principal amount as of December 31, 2014 (dollars in thousands):

	Initial Maturity	Maturity Including Extensions (1)
Years Ending December 31:		
2015	$ —	$ —
2016	131,250	—
2017	14,637	—
2018	—	11,250
2019	—	134,637
Thereafter	—	—
Total	$ 145,887	$ 145,887

(1) Assumes that all debt with extension options will qualify for extension at such maturity according to the conditions set forth in the governing documents.

As of December 31, 2014, the weighted average maturity, including extensions, of debt investments was 4.4 years.

Credit Quality Monitoring

Debt investments are typically loans secured by direct senior priority liens on real estate properties or by interests in entities that directly own real estate properties, which serve as the primary source of cash for the payment of principal and interest. The Company evaluates its debt investments at least quarterly and differentiates the relative credit quality principally based on: (i) whether the borrower is currently paying contractual debt service in accordance with its contractual terms; and (ii) whether the Company believes the borrower will be able to perform under its contractual terms in the future, as well as the Company's expectations as to the ultimate recovery of principal at maturity. The Company categorizes a debt investment for which it expects to receive full payment of contractual principal and interest payments as "performing." The Company will categorize a weaker credit quality debt investment that is currently performing, but for which it believes future collection of all or some portion of principal and interest is in doubt, into a category called "performing with a loan loss reserve." The Company will categorize a weaker credit quality debt investment that is not performing, which the Company defines as a loan in maturity default and/or past due at least 90 days on its contractual debt service payments, as a non-performing loan ("NPL"). The Company's definition of an NPL may differ from that of other companies that track NPLs.

As of December 31, 2014, all debt investments were performing in accordance with the contractual terms of their governing documents and were categorized as performing loans. For the year ended December 31, 2014, four debt investments each contributed more than 10% of interest income.

6. Borrowings

The following table presents borrowings as of December 31, 2014 and 2013 (dollars in thousands):

	Recourse vs. Non-Recourse	Final Maturity		Contractual Interest Rate (1)	December 31, 2014 Principal Amount	December 31, 2014 Carrying Value	December 31, 2013 Principal Amount	December 31, 2013 Carrying Value
Mortgage notes payable								
Athenaeum, NY (2)	Non-recourse	Dec-19		LIBOR + 3.5%	$ 2,090	$ 2,090	$ —	$ —
Cheektowaga, NY (2)	Non-recourse	Dec-19		LIBOR + 3.5%	8,612	8,612	—	—
Clinton, CT (2)	Non-recourse	Dec-19		LIBOR + 3.5%	6,269	6,269	7,782	7,782
Denver, CO	Non-recourse	Feb-21		LIBOR + 2.92%	21,500	21,500	—	—
Frisco, TX	Non-recourse	Mar-21		LIBOR + 3.04%	20,000	20,000	—	—
Milford, OH	Non-recourse	Dec-18	(3)	LIBOR + 3.35%	10,500	10,500	10,500	10,500
Peachtree, GA (2)	Non-recourse	Dec-19		LIBOR + 3.5%	7,029	7,029	—	—
Subtotal mortgage notes payable					76,000	76,000	18,282	18,282
Credit facilities								
Term Loan Facility	Recourse	Nov-17	(4)	Various (5)	—	—	—	—
Grand Total					$ 76,000	$ 76,000	$ 18,282	$ 18,282

(1) Represents one-month LIBOR for Denver, CO and Frisco, TX and three-month LIBOR for the others.
(2) During the fourth quarter 2014, the Company entered into one additional mortgage note payable with an aggregate commitment of up to $30.0 million, subject to certain conditions, secured by four healthcare real estate properties. As of December 31, 2014, the Company drew down $24.0 million of this commitment, of which $7.6 million was used to repay an existing mortgage note payable. The repayment resulted in a $0.2 million loss on extinguishment of the mortgage note payable due to the write-off of deferred financing costs.
(3) The initial maturity of Milford, OH is December 2016, with two one-year extensions available at the Company's option, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents.
(4) The initial maturity of Term Loan Facility is November 2016, with a one-year extension available at the Company's option, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents.
(5) The interest rate depends on the cumulative leverage of the Company and advance rate depend upon asset type and characteristics.

The following table presents scheduled principal on borrowings based on fully extended maturity as of December 31, 2014 (dollars in thousands):

Years Ending December 31:	
2015	$ —
2016	232
2017	2,174
2018	12,050
2019	24,140
Thereafter	37,404
Total	$ 76,000

Term Loan Facility

On November 13, 2013, the Company, through an Operating Partnership, entered into a credit facility agreement with a national financial institution (the "Term Loan Facility"), which initially provided up to $25.0 million and currently provides up to $100.0 million to finance real estate investments and first mortgage loans secured by healthcare real estate.

The Term Loan Facility acts as a revolving credit facility that can be paid down as assets are repaid, refinanced or sold and re-drawn upon for new investments. The Company agreed to guaranty all obligations under the Term Loan Facility. The Term Loan Facility contains representations, warranties, covenants, conditions precedent to funding, events of default and indemnities that are customary for agreements of this type. More specifically, the borrowing subsidiary of the Company must maintain $5.0 million in unrestricted cash at all times during the term of the Term Loan Facility.

In February 2014, the Company, through the Operating Partnership, amended the Term Loan Facility to increase the initial capacity to $100.0 million with up to $200.0 million of potential capacity. As of December 31, 2014, we had no borrowings outstanding under the Term Loan Facility.

As of December 31, 2014, the Company was in compliance with all of its financial covenants.

7. Related Party Arrangements

Advisor

In connection with the completion of NorthStar Realty's spin-off of its asset management business into the Sponsor, on June 30, 2014, the Company entered into a new advisory agreement with the Advisor, an affiliate of the Sponsor, on terms substantially similar to those set forth in the prior advisory agreement, and terminated the advisory agreement with the Prior Advisor. For periods prior to June 30, 2014, the information below regarding fees and reimbursements incurred and accrued but not yet paid relates to the Prior 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, originating, acquiring 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. Below is a description and table of the fees and reimbursements incurred to the Advisor.

Fees to Advisor

Asset Management Fee

The Advisor, or its affiliates, receives 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).

Acquisition Fee

The Advisor, or its affiliates, also receives an acquisition fee equal to 1.0% of the amount funded or allocated by the Company to acquire or originate investments, including acquisition expenses and any financing attributable to such investments (or the proportionate share thereof in the case of an investment made through a joint venture) except with respect to real estate property and 2.25% of each real estate property acquired by the Company, including acquisition expenses and any financing attributable to an equity investment (or the proportionate share thereof in the case of an equity investment made through a joint venture). An acquisition fee paid to the Advisor related to the origination or acquisition of debt investments 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. 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 The Company expenses 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.

Disposition Fee

For substantial assistance in connection with the sale of investments and based on the services provided, the Advisor, or its affiliates, receives a disposition fee equal to 1.0% of the contract sales price of each debt investment sold and 2.0% of the contract sales price of each property 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, or its affiliates, is entitled to receive reimbursement for direct and indirect operating costs incurred by the Advisor in connection with administrative services provided to the Company. Indirect operating costs include the Company's allocable share of costs incurred by the Advisor for personnel and other overhead such as rent, technology and utilities. However, there is no reimbursement for personnel costs related to executive officers and other personnel involved in activities for which the Advisor receives an acquisition fee or a disposition fee. 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.

Organization and Offering Costs

The Advisor, or its affiliates, is entitled to receive reimbursement for organization and offering costs paid on behalf of the Company in connection with the Offering. The Company is obligated to reimburse the Advisor, or its affiliates, as applicable, for organization and offering costs to the extent the aggregate of selling commissions, dealer manager fees and other organization and offering costs do not exceed 15% of gross proceeds from the Primary Offering. The Advisor does not expect reimbursable organization and offering costs, excluding selling commissions and dealer manager fees, to exceed $22.5 million, or 1.5% of the total proceeds available to be raised from the Primary Offering. The Company shall not reimburse the Advisor for any organization and offering costs that the Company's independent directors determine are not fair and commercially reasonable to the Company.

Dealer Manager

Selling Commissions and Dealer Manager Fees

Pursuant to a dealer manager agreement, the Company pays the Dealer Manager selling commissions of up to 7.0% of gross proceeds from the Primary Offering, all of which are reallowed to participating broker-dealers. In addition, the Company pays the Dealer Manager a dealer manager fee of up to 3.0% of gross proceeds from the Primary Offering, a portion of which is typically reallowed to participating broker-dealers and paid to certain employees of the Dealer Manager. No selling commissions or dealer manager fees are paid for sales pursuant to the DRP.

Summary of Fees and Reimbursements

The following table presents the fees and reimbursements incurred to the Advisor and the Dealer Manager for the years ended December 31, 2014 and 2013 and the amount due to related party as of December 31, 2014 and 2013 (dollars in thousands):

		Years Ended December 31,		Due to Related Party as of December 31,	
Type of Fee or Reimbursement	**Financial Statement Location**	**2014**	**2013**	**2014**	**2013**
Fees to Advisor					
Asset management	Asset management and other fees-related party	$ 3,406	$ 101	$ 6	$ 38
Acquisition (1)	Real estate debt investments, net/ Investments in unconsolidated ventures/ Asset management and other fees-related party	21,215	1,346	245	564
Disposition (1)	Real estate debt investments, net	—	—	—	—
Reimbursements to Advisor					
Operating costs (2)	General and administrative expenses	3,795	189	12	164
Organization	General and administrative expenses	281	82	2	19
Offering (3)	Cost of capital (4)	4,489	1,549	490	356
Selling commissions / Dealer manager fees	Cost of capital (4)	83,655	10,561	—	—
Total				$ 755	$ 1,141

(1) Acquisition/disposition fees incurred to the Advisor related to debt investments are generally offset by origination/exit fees paid to the Company by borrowers if such fees are required from the borrower. Acquisition fees related to equity investments are included in asset management and other fees - related party in the consolidated statements of operations. Acquisition fees related to investments in unconsolidated joint ventures are included in investments in unconsolidated ventures on the consolidated balance sheets. The Advisor may determine to defer fees or seek reimbursement.

(2) As of December 31, 2014, the Advisor and the Prior Advisor incurred unreimbursed operating costs on behalf of the Company and $8.9 million is still allocable.

(3) As of December 31, 2014, the Advisor incurred unreimbursed offering costs in connection with the Follow-on Offering on behalf of the Company and $0.6 million is still allocable.

(4) Cost of capital is included in net proceeds from issuance of common stock in the Company's consolidated statements of equity.

NorthStar Realty Purchase of Common Stock

On April 10, 2014, the board of directors of the Company extended the term of the distribution support agreement (the "Distribution Support Agreement") until August 7, 2015. Pursuant to the Distribution Support Agreement, NorthStar Realty committed to purchase up to an aggregate of $10.0 million in shares of the Company's common stock at a price of $9.00 per share during the Initial Offering and at $9.18 per share during the Follow-on Offering, if cash distributions exceed modified funds from operations (as computed in accordance with the definition established by the Investment Program Association and adjusted for certain items) to provide additional funds to support distributions to stockholders. In February 2013, NorthStar Realty purchased 222,223 shares of the Company's common stock for $2.0 million under the Distribution Support Agreement to satisfy the minimum offering requirement, which reduced the total commitment. As of December 31, 2014, including the purchase of shares to satisfy the minimum offering requirement, NorthStar Realty purchased 303,248 shares of the Company's common stock for $2.7 million and $7.3 million remained outstanding under such commitment. For the years ended December 31, 2014 and 2013, NorthStar Realty purchased 69,857 and 233,391 shares of the Company's common stock for $0.6 million and $2.1 million under such commitment, respectively. For the fourth quarter 2014, NorthStar Realty was not required to purchase shares in connection with the Distribution Support Agreement.

Investments in Joint Ventures

In May 2014, the Company, through a general partnership with NorthStar Realty, acquired a 5.6% interest in a $1.1 billion healthcare real estate portfolio and contributed $23.4 million of cash for its interest in the investment. The purchase was approved by the Company's board of directors, including all of its independent directors.

In December, 2014, the Company, through a general partnership with NorthStar Realty, acquired an interest in Griffin-American portfolio. The Company acquired an interest of 14.3% for $187.2 million in cash including the Company's pro rata share of transaction costs. The purchase was approved by the Company's board of directors, including all of its independent directors.

In connection with the acquisition of the Griffin-American portfolio by NorthStar Realty and the Company, the Sponsor acquired an approximate 44% interest in American Healthcare Investors LLC ("AHI") and Mr. James F. Flaherty III, a strategic partner of the Sponsor and the Company's Vice Chairman, acquired a 9.3% 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 connection with the Sponsor's acquisition of an interest in AHI, AHI provides certain management and related services, including property management, to the Advisor, NorthStar Realty and the Company. Initially, AHI provides such services to the Company only with respect to its interest in the Griffin-American portfolio and, following completion of the Offering and full investment of the proceeds, AHI may provide such services to a larger subset or all of our assets. Consequently, AHI will assist the Advisor in managing the Griffin-American portfolio and other current and future healthcare assets owned by the Company and NorthStar Realty.

8. Equity-Based Compensation

The Company adopted a long-term incentive plan, as amended (the "Plan"), which it may use to attract and retain qualified officers, directors, employees and consultants, as well as an independent directors compensation plan, which is a component of the Plan. Pursuant to the Plan, as of December 31, 2014 the Company's independent directors were granted a total of 30,000 shares of restricted common stock for an aggregate $270,000. The Company awarded 5,000 shares of restricted common stock on February 11, 2013 and 2,500 shares of restricted common stock on November 7, 2013 and June 13, 2014, respectively, to each of the Company's three independent directors. The shares will generally vest over four 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 $59,859 and $32,367 for the years ended December 31, 2014 and 2013 respectively, related to the issuance of restricted stock to the independent directors, which was recorded in general and administrative expenses in the consolidated statements of operations.

9. Stockholders' Equity

Common Stock from Primary Offering

For the year ended December 31, 2014, the Company issued 85.7 million shares of common stock generating gross proceeds of $854.9 million. For the year ended December 31, 2013, the Company issued 10.9 million shares of common stock generating gross proceeds of $108.7 million. From inception through December 31, 2014, the Company issued 96.6 million shares of common stock, generating gross proceeds of $963.6 million.

Distribution Reinvestment Plan

The Company adopted a 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 per share pursuant to the Initial DRP was $9.50. Once the Company establishes an estimated value per share, shares issued pursuant to the DRP will be priced at 95.0% of the estimated value per share of the Company's common stock, as determined by the Advisor or another firm chosen for that purpose. Pursuant to amended FINRA Rule 2310 which was recently approved by the SEC and is expected to be effective in 2016, the Company expects to establish an estimated value per share the later of: (i) within 150 days following the second anniversary of breaking escrow in February 2013 and (ii) the effective date of the new Rule, but in no event later than 18 months after the completion of its offering stage. The offering stage will be considered complete when the Company is no longer publicly offering equity securities through the Offering. No selling commissions or dealer manager fees are paid on shares issued pursuant to the DRP. The Company will disclose the per share estimated value in a report under the Exchange Act of 1934, as amended, and in each annual report thereafter. The board of directors of the Company may amend, suspend or terminate the DRP for any reason upon ten-days' notice to participants, except that the Company may not amend the DRP to eliminate a participant's ability to withdraw from the DRP. For the year ended December 31, 2014, the Company issued 1.3 million shares of common stock totaling $12.4 million of gross offering proceeds pursuant to the DRP. For the year ended December 31, 2013, the Company issued 35,495 shares of common stock totaling $0.3 million of gross offering proceeds pursuant to the DRP. From inception through December 31, 2014, the Company issued 1.3 million shares of common stock, generating gross offering proceeds of $12.7 million pursuant to the DRP.

Distributions

Distributions to stockholders are declared quarterly by the board of directors of the Company and are paid monthly based on a daily amount of $0.00184932 per share, which is equivalent to an annual distribution rate of 6.75%. 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 years ended December 31, 2014 and 2013 (dollars in thousands):

	Distributions [1]		
Period	**Cash**	**DRP**	**Total**
2014			
First Quarter	$ 1,169	$ 1,393	$ 2,562
Second Quarter	2,070	2,504	4,574
Third Quarter	3,360	4,201	7,561
Fourth Quarter	5,298	6,646	11,944
Total	$ 11,897	$ 14,744	$ 26,641
2013			
Second Quarter [2]	$ 45	$ 2	$ 47
Third Quarter	91	49	140
Fourth Quarter	535	590	1,125
Total	$ 671	$ 641	$ 1,312

(1) Represents distributions declared for the period, even though such distributions are actually paid to stockholders the month following such period. For the year ended December 31, 2014, 100% of distributions paid represent a return of capital.
(2) Distributions from April 5, 2013 (date of the first investment) through June 30, 2013.

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 disability, if the disability is deemed qualifying by the board of directors of the Company in its sole discretion and after receiving written notice from the stockholder or the stockholder's estate. 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. For the year ended December 31, 2014, the Company repurchased 14,354 shares of common stock for a total of $0.1 million at an average price of $9.92 per share. For the year ended December 31, 2013, the Company did not repurchase any shares pursuant to the Share Repurchase Program. As of December 31, 2014, there were no unfulfilled repurchase requests.

10. Non-controlling Interests

Operating Partnership

Non-controlling interests include the aggregate limited partnership interests in the Operating Partnership held by limited partners, other than the Company. Income (loss) attributable to the non-controlling interests is based on the limited partners' ownership percentage of the Operating Partnership. Income (loss) allocated to the Operating Partnership non-controlling interests for the years ended December 31, 2014 and 2013 was an immaterial amount.

Other

Other non-controlling interests represent third-party equity interests in ventures that are consolidated with the Company's financial statements. Net income (loss) attributable to the other non-controlling interests for the years ended December 31, 2014 and 2013 was an immaterial amount.

11. Fair Value

Fair Value Measurement

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

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

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

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

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

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

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

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

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

Fair Value of Financial Instruments

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

The following table presents the principal amount, carrying value and fair value of certain financial assets and liabilities as of December 31, 2014 and 2013 (dollars in thousands):

	December 31, 2014			December 31, 2013		
	Principal Amount	Carrying Value	Fair Value	Principal Amount	Carrying Value	Fair Value
Financial assets: (1)						
Real estate debt investments, net	$ 145,887	$ 146,267	$ 153,001	$ 11,250	$ 11,250	$ 11,250
Financial liabilities: (1)						
Mortgage notes payable	$ 76,000	$ 76,000	$ 75,293	$ 18,282	$ 18,282	$ 18,013

(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

For debt investments, fair value was approximated 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. Fair value was determined assuming fully-extended maturities regardless of structural or economic tests required to achieve such extended maturities. These fair value measurements of debt are generally based on unobservable inputs and, as such, are classified as Level 3 of the fair value hierarchy.

Mortgage Notes Payable

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

12. 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, backed by properties in the mid-acuity senior housing sector, predominantly in the United States, which the Company defines as ALF, MCF, SNF and ILF that have an emphasis on private pay patients and may also include MOB, hospitals and rehabilitation facilities. Certain healthcare properties operate under the RIDEA structure generating resident income from short-term residential agreements and incur customary related operating expenses.
- *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 commercial mortgage-backed securities and other securities backed primarily by loans secured by healthcare properties.
- *Corporate* - The corporate segment includes corporate level asset management and other fees to related party and general and administrative expenses.

The Company primarily generates revenue from rental and resident fee income from real estate equity and interest income on the real estate debt investments. For the year ended December 31, 2014, gross revenues from two of the Company's operators, Watermark Retirement Communities and Peregrine Health Management Company, were 48% and 10% of the Company's total revenues, respectively. The Company's income is also derived through the difference between net revenue and the cost at which the Company is able to finance its investments. The Company may also acquire investments which generate attractive returns without any leverage. The following tables present segment reporting for the years ended December 31, 2014 and 2013 (dollars in thousands):

Statement of Operations:

Year ended December 31, 2014	Real Estate Equity	Real Estate Debt	Corporate [1]	Total
Rental and resident fee income	$ 22,549	$ —	$ —	$ 22,549
Interest income	—	7,490	—	7,490
Property operating expenses	10,810	—	—	10,810
Asset management and other fees-related party	—	—	8,220	8,220
Other expenses	9,159	36	5,900	15,095
Other income (loss)	(156)	—	—	(156)
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	2,424	7,454	(14,120)	(4,242)
Equity in earnings (losses) of unconsolidated ventures	(12,127)	—	—	(12,127)
Income tax benefit (expense)	1,390	—	—	1,390
Net income (loss)	$ (8,313)	$ 7,454	$ (14,120)	$ (14,979)

Statement of Operations:

Year ended December 31, 2013	Real Estate Equity	Real Estate Debt	Corporate[1]	Total
Rental income	$ 488	$ —	$ —	$ 488
Interest income	—	375	—	375
Other revenue	38	—	—	38
Property operating expenses	24	—	—	24
Asset management and other fees-related party	—	—	1,334	1,334
Other expenses	1,460	2	651	2,113
Net income (loss)	$ (958)	$ 373	$ (1,985)	$ (2,570)

(1) Includes unallocated asset management fee—related party and general and administrative expenses, if any.

The following table presents total assets by segment as of December 31, 2014 and 2013 (dollars in thousands):

Balance Sheets:

	Real Estate Equity	Real Estate Debt	Corporate	Total
December 31, 2014:				
Investments in unconsolidated ventures	$ 215,175	$ —	$ —	$ 215,175
Total Assets	489,711	147,419	281,618	918,748
December 31, 2013:				
Total Assets	$ 57,521	$ 11,407	$ 46,911	$ 115,839

13. Subsequent Events

Status of Offering

On February 2, 2015, the Company completed its Initial Offering and issued 110.5 million shares of common stock resulting in gross proceeds of $1.1 billion.

On February 6, 2015, the registration statement for the Follow-on Offering was declared effective by the SEC and the Company began raising capital at the end of the month. For the period from February 6, 2015 through March 23, 2015, the Company issued 1.1 million shares of common stock representing gross proceeds of $10.7 million.

In connection with the effectiveness of the Follow-on Offering, on February 6, 2015, the Company entered into a new dealer manager agreement with the Dealer Manager, on substantially similar terms to those in effect for the Initial Offering. In addition, the Company amended and restated the Distribution Support Agreement extending the term of the agreement until February 6, 2017.

Distribution Reinvestment Plan

In January 2015, the Company reallocated 8.6 million shares from the Initial DRP to the Initial Primary Offering. For the period from inception through March 23, 2015, the Company issued 2.3 million shares pursuant to the DRP.

Distributions

On March 3, 2015, the board of directors of the Company approved a daily cash distribution of $0.00184932 per share of common stock for each of the three months ended June 30, 2015. Distributions are generally paid to stockholders on the first business day of the month following the month for which the distribution was accrued.

Share Repurchases

From January 1, 2015 through March 23, 2015, the Company repurchased 64,298 shares for a total of $0.6 million or a weighted average price of $9.88 per share under the Share Repurchase Program.

New Borrowings

On January 29, 2015, the Company obtained four mortgage notes to finance its operating real estate located in Long Island, New York. All closed on substantially similar terms and provide for an aggregate of $93.8 million of financing bearing interest at 3.99%. The mortgage notes payable are non-recourse and mature in January 2025.

New Investments

The Company, together with Formation Capital, LLC and Safanad Management Limited, agreed to acquire the U.S.-based operations of Extendicare International Inc., a $870.0 million portfolio consisting of 152 SNF and six ALF located across 12 states, with the largest concentrations in Indiana, Kentucky, Ohio, Michigan and Wisconsin. The Company may invest up to $165.0 million, including a $75.0 million mezzanine loan.

Term Loan Facility

On February 19, 2015, the Company amended the terms of its secured credit facility agreement, whereby its investments in unconsolidated joint ventures will be limited as a percentage of its consolidated total assets.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2014
(Dollars in Thousands)

Column A	Column B	Column C Initial Cost		Column D Capitalized Subsequent to Acquisition	Column E Gross Amount Carried at Close of Period			Column F		Column G	Column H
Location City, State	Encumbrances	Land	Building & Improvements	Land, Buildings & Improvements	Land	Building & Improvements	Total	Accumulated Depreciation	Total	Date Acquired	Life on Which Depreciation is Computed
Operating Real Estate											
Clinton, CT	$ 6,269	$ 600	$ 9,900	$ —	$ 600	$ 9,900	$ 10,500	$ 313	$ 10,187	Oct-13	40 years
Leawood, KS	—	900	7,100	—	900	7,100	8,000	231	7,769	Oct-13	40 years
Skaneateles, NY	2,090	400	2,600	—	400	2,600	3,000	80	2,920	Oct-13	40 years
Spring Hill, KS	—	430	6,570	—	430	6,570	7,000	208	6,792	Oct-13	40 years
Milford, OH	10,500	1,160	14,440	379	1,160	14,819	15,979	468	15,511	Dec-13	40 years
Smyrna, GA	7,029	825	9,175	—	825	9,175	10,000	250	9,750	Dec-13	40 years
Denver, CO	21,500	4,300	27,200	618	4,300	27,818	32,118	707	31,411	Jan-14	40 years
Cheektowaga, NY	8,612	300	12,200	—	300	12,200	12,500	277	12,223	Feb-14	40 years
Frisco, TX	20,000	3,100	35,874	755	3,100	36,629	39,729	899	38,830	Feb-14	40 years
Bohemia, NY	—	2,130	31,070	—	2,130	31,070	33,200	258	32,942	Sep-14	40 years
Hauppauge, NY	—	2,320	19,180	—	2,320	19,180	21,500	164	21,336	Sep-14	40 years
Islandia, NY	—	2,820	44,880	—	2,820	44,880	47,700	377	47,323	Sep-14	40 years
Westbury, NY	—	750	21,850	—	750	21,850	22,600	185	22,415	Sep-14	40 years
Total	$ 76,000	$ 20,035	$ 242,039	$ 1,752	$ 20,035	$ 243,791	$ 263,826	$ 4,417	$ 259,409		

The following table presents changes in the Company's operating real estate portfolio for the years ended December 31, 2014 and 2013 (dollars in thousands):

	Years Ended December 31,	
	2014	2013
Beginning balance	$ 54,100	$ —
Property acquisitions	207,974	54,100
Improvements	1,752	—
Ending balance	$ 263,826	$ 54,100

The following table presents changes in accumulated depreciation for the years ended December 31, 2014 and 2013 (dollars in thousands):

	As of December 31,	
	2014	2013
Beginning balance	$ 131	$ —
Depreciation expense	4,286	131
Ending balance	$ 4,417	$ 131

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE
December 31, 2014
(Dollars in Thousands)

Asset Type:	Location / Description	Number	Interest Rate: Floating [1]	Interest Rate: Fixed	Maturity Date [2]	Periodic Payment Terms [3]	Prior Liens [4]	Principal Amount	Carrying Value	Principal Amount of Loans Subject to Delinquent Principal or Interest
First mortgage loans:										
Cedar Creek	California/ SNF	1	8.0%	—%	Mar-16	I/O	$ —	$ 11,250	$ 11,250	$ —
Dallastown/ Newark	Pennsylvania / Delaware / SNF / ALF	1	8.3%	—%	Jan-17	I/O	—	14,637	14,637	—
Total/Weighted average		2	8.1%	—%			—	25,887	25,887	—
Mezzanine loans:										
Sava	Various / SNF	1	10.3%	—%	Jun-16	I/O	865,000	75,000	75,391	—
Sava 2	Various / SNF / ALF	1	10.0%	—%	Oct-16	I/O	60,000	45,000	44,989	—
Total/Weighted average		2	10.2%	—%			925,000	120,000	120,380	—
Total		4	9.8%	—%			$ 925,000	$ 145,887	$ 146,267	$ —

(1) Represents spread over one-month LIBOR except first mortgage loans that are subject to and include LIBOR floors ranging from 0.25% to 1.00%.
(2) Reflects the initial maturity date of the investment and does not consider any options to extend beyond such date.
(3) Interest Only, or I/O; principal amount due in full at maturity.
(4) Represents only third-party liens.

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

	Years Ended December 31, 2014	2013
Beginning balance	$ 11,250	$ —
Additions:		
Principal amount of new loans and additional funding on existing loans	134,637	11,250
Acquisition cost (fees) on new loans	1,513	113
Origination fees received on new loans	(992)	(113)
Deductions:		
Amortization of acquisition costs, fees, premiums and discounts	(141)	—
Ending balance	$ 146,267	$ 11,250

Corporate Directory

Board of Directors

Daniel R. Gilbert
Executive Chairman of NorthStar Healthcare
Chief Investment & Operating Officer of
NorthStar Asset Management Group, Ltd

James F. Flaherty III
Vice Chairman
Former Chief Executive Officer of HCP, Inc.

Daniel J. Altobello
Independent Director
Chairman of Altobello Family LP

Gregory A. Samay
Independent Director
Chief Investment Officer of
Fairfax County Retirement Systems

Jack F. Smith, Jr.
Independent Director
Chairman, Audit Committee
Former Partner, Deloitte & Touche LLP

Officers

Ronald J. Jeanneault
Chief Executive Officer & President

Douglas W. Bath
Chief Investment Officer

Debra A. Hess
Chief Financial Officer & Treasurer

Ronald J. Lieberman
Executive Vice President,
General Counsel & Secretary

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