UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2016

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from___ to ___

Commission File Number: 000-55190

NORTHSTAR HEALTHCARE INCOME, INC.

(Exact Name of Registrant as Specified in its Charter)

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

399 Park Avenue, 18th Floor, New York, NY 10022

(Address of Principal Executive Offices, Including Zip Code)

(212) 547-2600

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934: **None**

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934: Common Stock, $0.01 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Annual Report on Form 10-K or any amendment to this Annual Report on Form 10-K. ☐

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

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

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

There is no established trading market for the registrant's common stock and therefore the aggregate market value of the registrant's common stock held by non-affiliates cannot be determined.

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

The Company has one class of common stock, $0.01 par value per share, 185,933,753 shares outstanding as of March 24, 2017.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the definitive proxy statement related to the registrant's 2017 Annual Meeting of Stockholders to be filed hereafter are incorporated by reference into Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K.

NORTHSTAR HEALTHCARE INCOME, INC.

FORM 10-K

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may," "will," "should," "potential," "intend," "expect," "seek," "anticipate," "estimate," "believe," "could," "project," "predict," "continue," "future" or other similar words or expressions. Forward-looking statements are not guarantees of performance and are based on certain assumptions, discuss future expectations, describe plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Such statements include, but are not limited to, those relating to our ability to make distributions to our stockholders, our reliance on our advisor and our sponsor, the operating performance of our investments, our financing needs, the effects of our current strategies and investment activities and our ability to effectively deploy capital. Our ability to predict results or the actual effect of plans or strategies is inherently uncertain, 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 dependence on the resources and personnel of our advisor, our sponsor and their affiliates, including our advisor's ability to manage our portfolio on our behalf;
- the performance of our advisor, our sponsor and their affiliates;
- our liquidity and access to capital;
- our use of leverage;
- our ability to make distributions to our stockholders;
- the lack of a public trading market for our shares;
- the effect of economic conditions on the valuation of our investments;
- the effect of paying distributions to our stockholders from sources other than cash flow provided by operations;
- the impact of our sponsor's recently completed merger with NorthStar Realty Finance Corp. and Colony Capital, Inc., and whether any of the anticipated benefits to our advisor's and its affiliates' platform will be realized in full or at all;
- our advisor's and its affiliates' ability to attract and retain qualified personnel to support our growth and operations and potential changes to key personnel providing management services to us;
- our reliance on our advisor and its affiliates and sub-advisors/co-venturers in providing management services to us, the payment of substantial fees to our advisor, the allocation of investments by our advisor and its affiliates among us and the other sponsored or managed companies and strategic vehicles of our sponsor and its affiliates, and various potential conflicts of interest in our relationship with our sponsor;
- the impact of market and other conditions influencing the performance of our investments relative to our expectations and the impact on our actual return on invested equity, as well as the cash provided by these investments;
- 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;
- the nature and extent of future competition, including new construction in the markets in which our assets are located;
- the ability of our tenants, operators and managers to conduct their respective businesses in a manner sufficient to maintain or increase their revenues and to generate sufficient income to make rent payments to us and, in turn, our ability to satisfy our obligations under our borrowings;
- the ability of our tenants, operators and managers, as applicable, to comply with laws, rules and regulations in the operation of our properties, to deliver high-quality services, to attract and retain qualified personnel and to attract residents and patients;

- the ability and willingness of our tenants, operators, managers and other third parties to satisfy their respective obligations to us, including in some cases their obligation to indemnify us from and against various claims and liabilities;
- the financial weakness of our tenants, operators and borrowers, including potential bankruptcies and downturns in their businesses, and their legal and regulatory proceedings, which results in uncertainties regarding our ability to continue to realize the full benefit of such tenants' and operators' leases and borrowers' loans and/or expose us to additional liabilities and expenses;
- the impact of increased operating costs on our liquidity, financial condition and results of operations or that of our tenants, operators, managers and borrowers and our ability and the ability of our tenants, operators, managers and borrowers to accurately estimate the magnitude of those costs;
- changes in the value of our portfolio;
- the impact of fluctuations in interest rates;
- our ability to realize current and expected returns over the life of our investments;
- any failure in our advisor's and its affiliates' due diligence to identify relevant facts during our underwriting process or otherwise;
- investments in asset classes and structures with which we have less familiarity;
- 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;
- environmental compliance costs and liabilities;
- whether we will realize the benefits of the long-term partnership between our sponsor and James F. Flaherty III, a member of our Sponsor's investment committee and our former director, and potential conflicts that may arise in connection with his interest in American Healthcare Investors, LLC;
- risks associated with our joint ventures and unconsolidated entities, including our reliance on joint venture partners, lack of decision making authority and the financial condition of our joint venture partners;
- 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;
- the potential failure to maintain effective internal controls and disclosure controls and procedures;
- regulatory requirements with respect to our business and the healthcare industry generally, as well as the related cost of compliance;
- the extent and timing of future healthcare reform and regulation, including changes in reimbursement policies, procedures and rates;
- legislative and regulatory changes, including changes to laws governing the taxation of real estate investment trusts, or REITs, and changes to laws affecting non-traded REITs and alternative investments generally;
- our ability to maintain our qualification as a REIT for federal income tax purposes and limitations imposed on our business by our status as a REIT;
- the loss of our exemption from registration under the Investment Company Act of 1940, as amended;
- 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 on Form 10-K are based on information available to us on the date hereof and we are under no duty to update any of the forward-looking statements after the date of this report to conform these statements to actual results.

Factors that could have a material adverse effect on our operations and future prospects are set forth in our filings with the U.S. Securities and Exchange Commission, or the SEC, including the "Risk Factors" in this Annual Report on Form 10-K within Item 1A. The risk factors set forth in our filings with the SEC could cause our actual results to differ significantly from those contained in any forward-looking statement contained in this report.

PART I

Item 1. Business

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

Overview

We were formed to acquire, originate and asset manage a diversified portfolio of equity, debt and securities investments in healthcare real estate, directly or through joint ventures, with a focus on the mid-acuity senior housing sector, which we define as assisted living, or ALF, memory care, or MCF, skilled nursing, or SNF, independent living, or ILF, facilities and continuing care retirement communities, or CCRC, which may have independent living, assisted living, skilled nursing and memory care available on one campus. We also invest in other healthcare property types, including medical office buildings, or MOB, hospitals, rehabilitation facilities and ancillary healthcare services businesses. Our investments are predominantly in the United States, but we also selectively make international investments. We were formed in October 2010 as a Maryland corporation and commenced operations in February 2013. We elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, commencing with the taxable year ended December 31, 2013. We conduct our operations so as to continue to qualify as a REIT for U.S. federal income tax purposes.

Our equity investments are generally healthcare properties, which are either structured as net leases to healthcare operators or operated through management agreements with independent third-party operators, where applicable through the REIT Investment Diversification and Empowerment Act of 2007, or RIDEA, structures that permit us, through taxable REIT subsidiaries, or TRS, to have direct exposure to resident fee income and incur related operating expenses. Our debt investments generally consist of first mortgage loans and mezzanine loans. Our securities investments may include commercial mortgage-backed securities, or CMBS, and other securities backed primarily by loans secured by healthcare properties.

We are externally managed and have no employees. Prior to January 11, 2017, we were managed by an affiliate of NorthStar Asset Management Group Inc. (NYSE: NSAM), or NSAM. Effective January 10, 2017, NSAM completed its previously announced mergers with Colony Capital, Inc., or Colony, NorthStar Realty Finance Corp., or NorthStar Realty, and Colony NorthStar, Inc., or Colony NorthStar, a wholly-owned subsidiary of NSAM, which we refer to as the mergers, with Colony NorthStar surviving the mergers and succeeding NSAM as our Sponsor. As a result of the mergers, our Sponsor became an internally-managed equity REIT, with a diversified real estate and investment management platform and publicly-traded on the NYSE under the ticker symbol "CLNS." CNI NSHC Advisors, LLC, as successor to NSAM J-NSHC Ltd, or our Advisor, is now a subsidiary of Colony NorthStar. Our Advisor manages our day-to-day operations pursuant to an advisory agreement. The mergers had no material impact on our operations.

Our Sponsor and its affiliates also provide asset management and other services to NorthStar Realty Europe Corp. (NYSE: NRE), other sponsored public retail-focused companies, private funds and any other companies our Sponsor and its affiliates may manage in the future, or collectively the Managed Companies, both in the United States and internationally. As of February 28, 2017, our Sponsor had an aggregate of $56.0 billion of assets under management, adjusted for commitments to acquire or sell certain investments by our Sponsor and the Managed Companies.

Previously, we were managed by an affiliate of NorthStar Realty until June 30, 2014, when it spun-off its asset management business into NSAM. Concurrent with the spin-off, 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 material impact on our operations.

Our primary investment types are as follows:

- *Real Estate Equity* - Our equity investments, directly or through joint ventures, focus on properties in the mid-acuity senior housing sector, which we define as ALF, MCF, SNF, ILF and CCRC. Our equity investments may also include MOB, hospitals, rehabilitation facilities and ancillary healthcare services businesses. Our investments are predominantly in the United States, but we also selectively make international investments. Our healthcare properties generally operate under net leases or through management agreements with independent third-party operators.

- *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 overlapping sources of investment opportunities, common reliance on real estate and healthcare industry fundamentals and ability to apply similar portfolio management and servicing skills to maximize value and to protect capital either directly or through third parties.

We initially registered to offer up to 100.0 million shares pursuant to our primary offering to the public, 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. Our Initial Offering (including 8.6 million shares reallocated from our Initial DRP) was completed on February 2, 2015 by raising gross proceeds of $1.1 billion. All of the shares initially registered for our Initial Offering were issued.

On February 6, 2015, our registration statement on Form S-11 was declared effective by the U.S. Securities and Exchange Commission, or SEC, for a follow-on public offering, or our Follow-on Offering, of up to $700.0 million, which included 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 stopped accepting subscriptions for our Follow-on Offering on December 17, 2015 and all of the shares initially registered (including $159.5 million of shares reallocated from our Follow-on DRP) for our Follow-on Offering were issued on or before January 19, 2016. We registered an additional 30.0 million shares to be offered pursuant to our DRP beyond the completion of our Follow-on Offering and continue to offer such shares.

Our Initial Primary Offering and our Follow-on Primary Offering are collectively referred to as our Primary Offering and our distribution reinvestment plan, including but not limited to our Initial DRP and Follow-on DRP, are collectively referred to as our DRP. Additionally, our Primary Offering and our Initial DRP and our Follow-on DRP are collectively referred to as our Offering.

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

From inception through March 22, 2017, we raised total gross proceeds of $1.9 billion, including $143.6 million in DRP proceeds.

Our Investments

The following table presents our investments as of December 31, 2016, adjusted for acquisitions and dispositions through March 24, 2017 (dollars in thousands):

Investment Type:	Count	Amount[1][2]	% of Total	Capacity		Primary Locations
Real estate equity[3]	Properties					
MOB[4]	112	$ 193,398	5.7%	3.9 million	square feet	IL, GA, OH, TX, IN
Net lease						
Senior housing facilities[5]	109	572,389	16.7%	6,096	units	NY, CA, FL, UK, WA
SNF	244	454,703	13.3%	26,438	beds	PA, MI, KY, IN, WI
Hospital	14	40,772	1.2%	817	beds	CA, TX, MO, UT, GA
Operating						
Senior housing facilities[5]	105	1,627,354	47.6%	12,385	units	CA, WA, TX, NY, IL
SNF	73	392,311	11.5%	7,298	beds	IN, OH, MI, KY, MA
Ancillary[6]	NA	243	0.1%	N/A		OH
Total real estate equity	657	3,281,170	96.1%			
Real estate debt	Loan					
Mezzanine loan	1	75,000	2.2%			
Total real estate debt	1	75,000	2.2%			
Healthcare-related securities						
Freddie Mac securitization[7]	1	57,514	1.7%			
Total healthcare-related securities	1	57,514	1.7%			
Total investments	659	$ 3,413,684	100.0%			

(1) Based on cost for real estate equity investments, which includes purchase price allocations related to net intangibles, deferred costs, other assets, if any, and adjusted for subsequent capital expenditures. For real estate debt and securities, based on principal amount.
(2) Includes our proportionate interest in the underlying real estate held through unconsolidated joint ventures of $1.3 billion.
(3) Classification of investment type based on predominant services provided, but may include other services.
(4) The Griffin-American joint venture sold 35 MOBs in December 2016 and one MOB in January 2017, within the Griffin-American portfolio for an aggregate $782.5 million. Our proportionate share of net proceeds generated from the sale after repayment of debt totaled $13.5 million, of which $0.5 million was received related to the sale in January 2017. Our proportionate share of realized gains recognized from this sale in 2016 was $1.7 million.
(5) Includes ALF, MCF, ILF and CCRC.
(6) Includes institutional pharmacy and therapy businesses and lease purchase buy-out options in connection with the Trilogy investment.
(7) Represents the par value of Class B certificates in a Freddie Mac securitization purchased in October 2016. Refer to Note 6. "Healthcare-Related Securities" of Part II, Item 8. "Financial Statements and Supplementary Data" for further discussion.

For financial information regarding our reportable segments, refer to Note 13. "Segment Reporting" in our accompanying consolidated financial statements included in Part II, Item 8. "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 teams 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) the historical, projected and overall potential return of the investment; (ii) the property's historical and projected operating revenues and expenses; (iii) the manager's and tenant's expertise, financial strength and reputation; (iv) a review of the existing and projected competition within the market; (v) an analysis of the current and projected valuation of the building; (vi) an assessment of the physical condition of the building; (vii) the overall legal structure of the investment; (viii) the terms of the purchase and sale agreement, management agreement, joint venture agreement, lease agreement and other transactional agreements and obligations; (ix) the availability, terms and obligations of third-party project financing; (x) a third-party's opinion of the valuation, physical condition and environmental assessment of the building; (xi) the state or federal regulations that may impact the local workforce and payment reimbursement such as Medicaid and Medicare; (xii) the building's and operator's licensing survey results; (xiii) the insurance coverages, premiums and claims history of the property and operator; (xiv) the tax and accounting impact of the transaction; (xv) a review of any contingent liabilities in the transaction; (xvi) the expected ability to liquidate the investment through a sale or refinancing; (xvii) the appropriateness and cost of the business plan with repositioning the property; and (xviii) for debt investments, the borrower's credit, loan agreement terms, collateral securing the loan and the expected ability to pay debt service.

The following section describes the major asset classes in which we 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 interests in healthcare properties, directly or through joint ventures, with a focus on the mid-acuity senior housing sector, which we define as ALF, MCF, SNF, ILF and CCRC. We also invest in other healthcare property types, including MOB, hospitals, rehabilitation facilities and ancillary healthcare services businesses. Our investments are predominantly in the United States, but we also selectively make international investments.

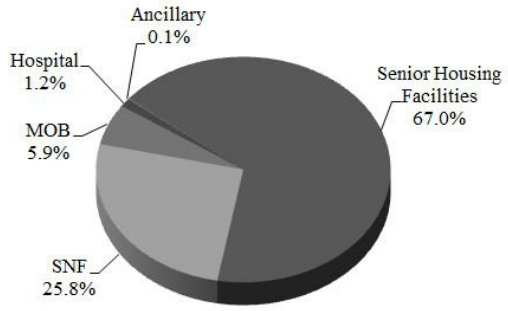
Our equity investments are generally healthcare properties, which are either structured as net leases to healthcare operators or operated through management agreements with independent third-party operators, where applicable under the RIDEA structure, whereby we participate directly in the operational cash flow of a property, generate resident level income from short-term residential agreements and incur customary related operating expenses.

We believe that mid-acuity senior housing facilities may provide an opportunity to generate attractive risk-adjusted returns. Mid-acuity senior housing facilities benefit from positive demographic and economic trends and generally provide a broad level of services to residents in a cost-effective setting resulting in a longer length of stay for residents and less turnover in tenancy than in some other healthcare settings.

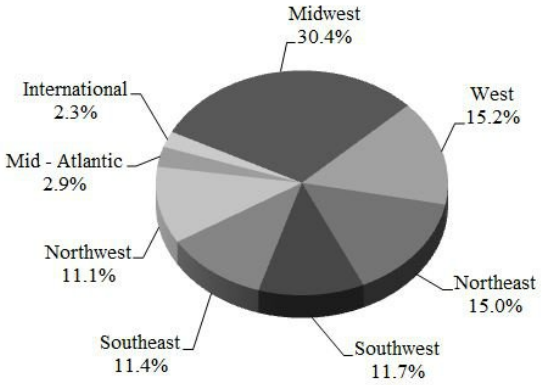
Our Portfolio

As of December 31, 2016, $3.3 billion, or 96.1%, of our investments were invested in healthcare real estate equity, adjusted for acquisitions and dispositions through March 24, 2017. The following presents our real estate equity portfolio diversity across property type and geographic location based on cost:

Real Estate Equity by Property Type[1]



Real Estate Equity by Geographic Location



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

The following table presents a summary of our real estate equity investments as of December 31, 2016, adjusted for acquisitions and dispositions through March 24, 2017 (dollars in thousands):

			Properties[1]						
Portfolio	Investment Structure	Amount[2]	Senior Housing Facilities	MOB	SNF	Hospitals	Total	Primary Locations	Ownership Interest
Direct Investments[3]									
Watermark Aqua	Operating Facilities	$ 110,666	4	—	—	—	4	West/ Southwest/ Midwest	97.0%
Peregrine	Net Lease	36,498	4	—	—	—	4	Northeast/ Southeast	100.0%
Kansas City	Net Lease	15,000	2	—	—	—	2	Midwest	100.0%
Arbors	Net Lease	126,823	4	—	—	—	4	Northeast	100.0%
Watermark Fountains[4]	Net Lease/Operating Facilities	659,233	16	—	—	—	16	Various	Various
Winterfell[5]	Operating Facilities	904,985	32	—	—	—	32	Various	100.0%
Bonaventure[6]	Operating Facilities	99,438	5	—	—	—	5	Northwest	100.0%
Oak Cottage[7]	Operating Facilities	18,600	1	—	—	—	1	West	100.0%
Total Direct Investments		1,971,243	68	—	—	—	68		
Joint Venture Investments[8]									
Eclipse	Net Lease/Operating Facilities	59,816	44	—	36	—	80	Various	5.6%
Envoy	Net Lease	16,472	—	—	14	—	14	Mid - Atlantic/ Northeast	11.4%
Griffin-American[9]	Net Lease/Operating Facilities	483,579	90	112	45	14	261	Various	14.3%
Espresso	Net Lease	326,475	6	—	152	—	158	Various	36.7%
Trilogy[10]	Operating Facilities	423,585	6	—	70	—	76	Various	29.0%
Total Joint Venture Investments		1,309,927	146	112	317	14	589		
Total		$ 3,281,170	214	112	317	14	657		

(1) Classification based on predominant services provided, but may include other services.
(2) Includes purchase price allocations related to net intangibles, deferred costs, other assets, if any, and adjusted for subsequent capital expenditures.
(3) The net lease properties are leased to five operators, which collectively have a seven year weighted average remaining lease term. The weighted average resident occupancy of our direct investments was 87.8%.
(4) Watermark Fountains portfolio consists of six wholly-owned properties of $282.9 million and ten properties of $376.3 million in which we own a 97.0% interest. One of these properties consists of 17 condominium units in which we hold future interests, or the Remainder Interests.
(5) Winterfell portfolio ownership increased to 100% and became a consolidated real estate equity investment on March 1, 2016. Refer to Note 3. “Operating Real Estate” of Part II, Item 8. “Financial Statements and Supplementary Data”.
(6) Represents our acquisition of a portfolio of senior housing facilities for a purchase price of $98.9 million, plus $0.5 million of additional costs, which closed in February 2017. Refer to “Recent Developments” for further discussion.
(7) Represents the acquisition of a MCF for $18.6 million, which closed in March 2017. Refer to “Recent Developments” for further discussion.
(8) Represents our proportionate interest in real estate assets held through unconsolidated joint ventures.
(9) The Griffin-American joint venture sold 35 MOBs in December 2016 and one MOB in January 2017, within the Griffin-American portfolio for an aggregate $782.5 million. Our proportionate share of net proceeds generated from the sale after repayment of debt totaled $13.5 million of which $0.5 million was received related to the sale in January 2017. Our proportionate share of realized gains recognized from this sale in 2016 was $1.7 million.
(10) Includes institutional pharmacy and therapy businesses and lease purchase buy-out options, which are not subject to property count.

As of December 31, 2016, our unconsolidated joint venture investments, totaling $1.3 billion, comprised 39.9% of our total real estate equity investments portfolio and represented an 18.3% indirect exposure to over $7.2 billion in real estate equity investment alongside our joint venture partners. As of December 31, 2016, our unconsolidated joint venture investments included the following:

- Eclipse Joint Venture, a 5.6% interest in a $1.1 billion portfolio.
- Envoy Joint Venture, a 11.4% interest in a $144.5 million portfolio.
- Griffin-American Joint Venture, a 14.3% interest in a $3.4 billion portfolio.
- Espresso Joint Venture, a 36.7% interest in a $1.1 billion portfolio.
- Trilogy Joint Venture, a 29.0% interest in a $1.5 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 underwriting and structure and provides us the opportunity to syndicate some or all of the loans (including senior or subordinate interests), if desired. Further, direct origination of debt investments provides for a closer relationship with our borrowers and operators.

Our Portfolio

As of December 31, 2016, $75.0 million, or 2.2%, of our investments were invested in real estate debt secured by healthcare facilities, consisting of one loan with an investment size of $75.0 million. The extended maturity of our real estate debt investment is 4.1 years.

The following table presents a summary of our debt investment as of December 31, 2016 (dollars in thousands):

Investment Type:	Count	Principal Amount	Carrying Value	Fixed Rate	Total Unleveraged Current Yield
Mezzanine loan[1]	1	$ 75,000	$ 74,558	10.0%	10.3%

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

Healthcare-Related Securities

Our healthcare-related securities investment strategy includes investing primarily in CMBS or securitization trusts, and may include other healthcare-related securities, backed by loans secured by a variety of healthcare properties. We expect that this asset class will be less than 10% of our total portfolio. As of December 31, 2016, $57.5 million, or 1.7%, of our investments were invested in healthcare-related securities consisting of the Class B certificates in a Federal Home Loan Mortgage Corporation, or Freddie Mac, securitization trust. The Class B certificates were purchased at a 47.0% discount, or $27.0 million, producing a bond equivalent yield of 13.1%, and are collateralized by $57.5 million of loans with a weighted average maturity of 9.8 years. We also have an equity interest in properties underlying certain of the loans in the securitization trust through our interest in the Eclipse portfolio.

Financing Strategy

We use asset-level financing as part of our investment strategy to prudently leverage our investments while managing refinancing and interest rate risk. Our Advisor is responsible for managing such financing and interest rate risk on our behalf. We consider 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. We may, as circumstances warrant, utilize some level of recourse financing.

Our financing strategy for our real estate equity investments is typically to seek long-term, non-recourse mortgage loans. For our debt and securities investments, we may seek to obtain match-funded borrowings at rates that provide a positive net spread, generally using credit facilities and securitization financing transactions. Our borrowing levels and terms vary depending upon the nature of the assets and the related financing.

Although we have a limitation on the maximum leverage for our portfolio, which approximates 75% of our assets (excluding indirect leverage held through our unconsolidated joint venture investments and any securitized mortgage obligations to third-parties), other than intangibles, 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, excluding indirect leverage held through our unconsolidated joint venture investments and any securitized mortgage obligations to third-parties.

Portfolio Management

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

Our Advisor has delegated certain asset management functions in connection with our portfolio to American Healthcare Investors, LLC, or AHI. As of December 31, 2016, AHI provides these asset management services in connection with our Griffin-American and Winterfell portfolios. In addition, Formation provides similar asset management services to us in connection with the Eclipse, Espresso and Envoy joint ventures. Our Advisor, under the direction of its investment committee, supervises AHI and Formation and retains ultimate oversight and responsibility for the management of our portfolio.

Our Advisor, together with AHI or Formation (referred to herein as our Advisor's asset management team), uses many methods to actively manage our asset base to enhance or preserve our income, value and capital and mitigate risk. Our Advisor's asset management team seeks to identify strategic development opportunities for our existing and future investments that may involve replacing, converting or renovating facilities in our portfolio which, in turn, would allow us to provide optimal mix of services and enhance the overall value of our assets. To manage risk, our Advisor's asset management team engages in frequent review and dialogue with operators/managers/borrowers/third party advisors and periodic inspections of our owned properties and collateral. In addition, our Advisor's asset management team considers the impact of regulatory changes on the performance of our portfolio. During the quarterly credit and operating results review, or more frequently as necessary, investments are put on highly-monitored status, as appropriate, based upon several factors, including missed or late contractual payments, significant declines in performance and other data which may indicate a potential issue in our ability to recover our invested capital from an investment. Each situation depends on many factors, including the number of properties, the type of property, macro and local market conditions impacting supply/demand, cash flow and the financial condition of our operators/managers/borrowers. Our Advisor's asset management team is an experienced asset management team that monitors these factors on our behalf.

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

Operators of two of our portfolios, which collectively account for 1.4% of total revenue attributable to our direct investments, have failed to timely pay their full rental obligations. For one portfolio, we have entered into a new lease and related documents with a new operator and transitioned two of the four properties to the new operator in the third quarter of 2016, with the remaining two properties expected to be transitioned in 2017. We were also obligated to fund additional reserves under the mortgage note payable relating to this portfolio, which we expect to be released upon stabilization of the portfolio post-transition. For the other portfolio, we are currently evaluating the transition of the portfolio to a new operator.

As of December 31, 2016, except as discussed above, our direct 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 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, commencing with our taxable year ended December 31, 2013. If we maintain our qualification as a REIT for federal income tax purposes, we will generally not be subject to federal income tax on our taxable income that we distribute as dividends to our stockholders. If we fail to maintain our qualification as a REIT in any taxable year after electing REIT status, we will be subject to federal income tax on our taxable income at regular corporate income tax rates and will generally not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year in which our qualification is denied. Such an event could materially and adversely affect our net income 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.

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

- For taxable years beginning after 2017, the percentage of a REIT's total assets that may be represented by securities of one or more TRSs is reduced from 25% to 20%.
- For distributions in taxable years beginning after 2014, the preferential dividend rules no longer apply to us as a "publicly offered REIT," as defined in new Internal Revenue Code Section 562(c)(2).
- For taxable years beginning after 2015, debt instruments issued by publicly offered REITs are treated as real estate assets for purposes of the 75% asset test, but interest on debt of a publicly offered REIT will not be qualifying income under the 75% gross income test unless the debt is secured by real property. Under a new asset test, not more than 25% of the value of a REIT's assets may consist of debt instruments that are issued by publicly offered REITs and would not otherwise be treated as qualifying real estate assets.

- For taxable years beginning after 2015, to the extent rent attributable to personal property is treated as rents from real property (because rent attributable to the personal property for the taxable year does not exceed 15% of the total rent for the taxable year for such real and personal property), the personal property will be treated as a real estate asset for purposes of the 75% asset test. Similarly, a debt obligation secured by a mortgage on both real and personal property will be treated as a real estate asset for purposes of the 75% asset test, and interest thereon will be treated as interest on an obligation secured by real property, if the fair market value of the personal property does not exceed 15% of the fair market value of all property securing the debt.
- For taxable years beginning after 2015, a 100% excise tax will apply to "redetermined services income," i.e., non-arm's-length income of a REIT's TRS attributable to services provided to, or on behalf of, the REIT (other than services provided to REIT tenants, which are potentially taxed as redetermined rents).
- For taxable years beginning after 2014, the period during which dispositions of properties with net built-in gains acquired from C corporations in carry-over basis transactions will trigger the built-in gains tax is reduced from ten years to five years.
- REITs are subject to a 100% tax on net income from "prohibited transactions," i.e., sales of dealer property (other than "foreclosure property"). These rules also contain safe harbors under which certain sales of real estate assets will not be treated as prohibited transactions. One of the requirements for the current safe harbors is that (I) the REIT does not make more than seven sales of property (subject to specified exceptions) during the taxable year at issue, or (II) the aggregate adjusted bases (as determined for purposes of computing earnings and profits) of property (other than excepted property) sold during the taxable year does not exceed 10% of the aggregate bases in the REIT's assets as of the beginning of the taxable year, or (III) the fair market value of property (other than excepted property) sold during the taxable year does not exceed 10% of the fair market value of the REIT's total assets as of the beginning of the taxable year. If a REIT relies on clause (II) or (III), substantially all of the marketing and certain development expenditures with respect to the properties sold must be made through an independent contractor. For taxable years beginning after December 18, 2015, clauses (II) and (III) are liberalized to permit the REIT to sell properties with an aggregate adjusted basis (or fair market value) of up to 20% of the aggregate bases in (or fair market value of) the REIT's assets as long as the 10% standard is satisfied on average over the three-year period comprised of the taxable year at issue and the two immediately preceding taxable years. In addition, for taxable years beginning after 2015, for REITs that rely on clauses (II) or (III), a TRS may make the marketing and development expenditures that previously had to be made by independent contractors.
- A number of changes applicable to REITs are made to the Foreign Investment in Real Property Tax Act of 1980, or FIRPTA, rules for taxing non-U.S. persons on gains from sales of U.S. real property interests ("USRPIs"):
    - For dispositions and distributions on or after December 18, 2015, the stock ownership thresholds for exemption from FIRPTA taxation on sale of stock of a publicly traded REIT and for recharacterizing capital gain dividends as ordinary dividends is increased from not more than 5% to not more than 10%.
    - Effective December 18, 2015, new rules simplified the determination of whether we are a "domestically controlled qualified investment entity."
    - For dispositions and distributions after December 18, 2015, "qualified foreign pension funds" as defined in new Internal Revenue Code Section 897(l)(2) and entities that are wholly owned by a qualified foreign pension fund are exempted from FIRPTA and FIRPTA withholding. New FIRPTA rules also apply to "qualified shareholders" as defined in new Internal Revenue Code Section 897(k)(3).
    - For sales of USRPIs occurring after February 16, 2016, the FIRPTA withholding rate for sales of USRPIs and certain distributions generally increases from 10% to 15%.

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*."

We own and manage healthcare properties. As such, we or our tenants, operators or managers, 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, refer to Item 1A. "Risk Factors."

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

Overview

Assisted living, independent living, memory care, hospitals, skilled nursing facilities and other healthcare providers that operate healthcare properties in our portfolio are subject to extensive federal, state and local laws, regulations and industry standards governing their operations. Failure to comply with any of these, and other, laws could result in loss of licensure; loss of certification or accreditation; denial of reimbursement; imposition of civil and/or criminal penalties and sanctions; suspension or exclusion from federal and state healthcare programs; or closure of the facility. Although the properties within our portfolio may be subject to varying levels of governmental scrutiny, we expect that the healthcare industry, in general, will continue to face increased regulation and pressure in the areas of fraud and abuse and privacy and security, among others. We also expect that efforts by third-party payors, such as the federal Medicare program, state Medicaid programs and private insurers, to impose greater and more stringent cost controls upon operators will intensify and continue. Changes in laws, regulations, reimbursement, and enforcement activity, including those resulting from the new presidential administration, 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 this report.

Fraud and Abuse Enforcement

Healthcare providers are subject to federal and state laws and regulations that govern their operations and arrangements with referral sources. These laws include those that require providers to furnish only medically necessary services and submit to third-

party payors valid and accurate statements for each service, Medicare and Medicaid laws and regulations, privacy and security laws, kickback laws, self-referral laws and false claims acts, the latter of which has resulted in increased enforcement activity and can involve significant monetary damages and awards to private plaintiffs who successfully bring "whistleblower" lawsuits. Sanctions for violations of these laws, regulations, and other applicable guidance may include, but are not limited to, loss of licensure, loss of certification or accreditation, denial of reimbursement, imposition of civil and/or criminal penalties and fines, suspension or exclusion from federal and state healthcare programs, or closure of the facility; any of which could have a material adverse effect on the operations and financial condition of our tenants, operators and managers, which, in turn may adversely impact us.

Healthcare Reform

The Patient Protection and Affordable Care Act of 2010 (ACA) impacted the healthcare marketplace by decreasing the number of uninsured individuals in the US through the establishment of health insurance exchanges to facilitate the purchase of health insurance, expanded Medicaid eligibility, subsidized insurance premiums and requirements and incentives for businesses to provide healthcare benefits. The ACA remains subject to continuing and increasing legislative scrutiny, including current efforts by Congress and the new presidential administration to repeal and replace the ACA in total or in part. If the ACA is repealed or substantially modified, or if implementation of certain aspects of the ACA are suspended, such action could negatively impact the operations and financial condition of our tenants and operators, which in turn may adversely impact us.

Reimbursement Generally

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

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

Medicare Reimbursement.

Medicare is a significant payor source for our skilled nursing facilities and hospitals. Skilled nursing facilities are reimbursed under the Medicare Skilled Nursing Facility Prospective Payment System, while hospitals are reimbursed by Medicare under prospective payment systems that vary based upon the type of hospital, geographic location and service furnished. Under these payment systems, providers typically receive fixed fees for defined services, which creates a risk that payments will not cover the costs of delivering care. In addition, the Centers for Medicare and Medicaid Services (CMS), the federal agency that administers the Medicare program, continues to focus on linking payment to performance relative to quality and other metrics and bundling payments for multiple items and services in a way that shifts more financial risk to providers. These changes could reduce payments and patient volumes for some facilities. The new presidential administration is expected to maintain this focus, but also could propose additional changes to the amount and manner in which healthcare providers are paid, and these changes also could have a material adverse effect on payments and patient volumes for some facilities. Lastly, Congress is contemplating substantial reforms to the Medicare program which, if enacted, could negatively impact the operations and financial condition of our tenants and operators, which in turn may adversely impact 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. Within certain federal guidelines, states have a fairly wide range of discretion to determine Medicaid eligibility and reimbursement methodology. Certain states are attempting to slow the rate of growth in Medicaid expenditures by freezing rates or restricting eligibility and benefits and some states have elected not to expand their Medicaid eligibility criteria pursuant to the ACA. Congress and the new presidential administration have expressed interest in repealing the ACA and substantially reforming the Medicaid program. In so doing, Congress may repeal the provisions of the ACA that encouraged states to expand Medicaid eligibility to more adults, including additional federal matching funds that enabled states

to do so, which could result in states that expanded Medicaid under the ACA reducing or eliminating eligibility for certain individuals and/or offsetting the cost by further reducing payments to providers of services. Congress is also considering enacting substantial reforms to Medicaid to grant states more autonomy and discretion to design Medicaid programs. These changes, if enacted, could also reduce or eliminate eligibility for certain individuals and/or allow states to further reduce payments to providers of services. In some states, our tenants and operators could experience delayed or reduced payment for services furnished to Medicaid enrollees, which in turn may adversely impact us.

Licensure, CON, Certification and Accreditation

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

Health Information Privacy and Security

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

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, private equity 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, 2016, 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.northstarsecurities.com/healthcare*. The information on our website is not incorporated by reference in this Annual Report on Form 10-K. 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.

Item 1A. Risk Factors

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial or that generally apply to all businesses also may adversely impact our business. If any of the following risks occur, our business, financial condition, operating results, cash flow and liquidity could be materially adversely affected.

Risks Related to Our Business

Adverse changes in general economic conditions could adversely impact our business, financial condition and results of operations.

Our success is dependent upon general economic conditions in the United States and in the international geographic areas where our investments are located. Adverse changes in economic conditions in the United States or these countries or regions would likely have a negative impact on real estate values and, accordingly, our financial performance, the market prices of our securities, and our ability to pay dividends.

Our business is also closely tied to general economic conditions in the real estate industry. As a result, our economic performance, the value of our real estate and real estate related investments, and our ability to implement our business strategies may be significantly and adversely affected by changes in economic conditions in the United States and in the international geographic areas where a substantial number of our investments are located. The condition of the real estate markets in which we operate is cyclical and depends on the condition of the economy in the United States, Europe, China and elsewhere as a whole and to the perceptions of investors of the overall economic outlook. Rising interest rates, declining employment levels, declining demand for real estate, declining real estate values or periods of general economic slowdown or recession, increasing political instability or uncertainty, or the perception that any of these events may occur have negatively impacted the real estate market in the past and may in the future negatively impact our operating performance. In addition, the economic condition of each local market where we operate may depend on one or more key industries within that market, which, in turn, makes our business sensitive to the performance of those industries.

We have only a limited ability to change our portfolio promptly in response to economic or other conditions. Certain significant expenditures, such as debt service costs, real estate taxes, and operating and maintenance costs, are generally not reduced when market conditions are poor. These factors impede us from responding quickly to changes in the performance of our investments and could adversely impact our business, financial condition and results of operations.

Challenging economic and financial market conditions could significantly reduce the value of our investments.

Challenging economic and financial market conditions may cause us to experience an increase in the number of commercial real estate investments that result in losses, including tenant/operator defaults and delinquencies, a decrease in revenues and the value of our properties, all of which could adversely affect our results of operations. We may incur substantial losses and need to establish significant provision for losses or impairment.

These conditions may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to stockholders. Among other potential consequences, an economic slowdown may materially adversely affect:

- our ability to borrow on terms and conditions that we find acceptable, or at all, which could reduce our ability to pursue acquisition and origination opportunities and refinance existing borrowings, reduce our returns from our acquisition and origination activities and increase our future interest expense;
- lower occupancy rates and lower lease rates or residents fees across our properties;
- the financial condition of our tenants/operators/managers, which may result in defaults under leases or management agreements, which in turn can lead to defaults under our borrowings and a lack of liquidity; and
- the value of our healthcare real estate and our ability to dispose of these assets at attractive prices or to obtain financing collateralized by these assets.

Risks Related to Our Investments

All of our investments are concentrated in healthcare properties.

Our investments are subject to the risks typically associated with real estate, including:

- local, state, national or international economic conditions, including market disruptions caused by regional concerns, political upheaval and other factors;
- competition from comparable properties;
- the ability and willingness of tenants/operators/managers to maintain the financial strength and liquidity to satisfy their obligations to us and to third parties;
- reliance on tenants/operators/managers to operate their business in a sufficient manner and in compliance with their contractual arrangements with us;
- ability and cost to replace a tenant/operator/manager upon default;
- property operating costs, including insurance premiums, real estate taxes and maintenance costs;
- changes in interest rates and in the availability, cost and terms of mortgage financing;
- adverse changes in state and local laws, including zoning laws; and
- other factors which are beyond our control.

However, in addition, as a result of our concentration of healthcare real estate investments, our exposure to the risks inherent in investments in the healthcare sector is increased, making us more vulnerable to a downturn or slowdown in the healthcare sector. We cannot be certain that our tenants, operators and managers will achieve and maintain occupancy and rate levels that will enable them to satisfy their obligations to us. We also cannot assure you that future changes in government regulation will not adversely affect the healthcare industry. Any adverse changes in the regulation of the healthcare industry or the competitiveness of our tenants, operators and managers could have a more pronounced effect on us than if our investments were more diversified.

We do not control the operations of our healthcare properties and we are dependent on the tenants/operators/managers of our healthcare properties.

Our senior housing properties are typically operated by healthcare operators pursuant to net leases or by an independent third party manager pursuant to management agreements. As a result, we are unable to directly implement strategic business decisions with respect to the daily operation and marketing of our healthcare properties. In addition, certain of our tenants/operators/managers may operate or manage facilities for our competitors, which may cause conflicts of interests that result in actions or inaction that is detrimental to us. While we have various rights as the property owner under our leases or management agreements and monitor the tenants/operators/managers' performance, we have limited recourse under our leases or management agreements if we believe that the tenants/operators/managers are not performing adequately. Failure by tenants/operators/managers to adequately manage the risks associated with operations of healthcare properties could adversely affect our results of operations. Furthermore, if our tenants/operators/managers experience any significant financial, legal, accounting or regulatory difficulties, such difficulties could indirectly have a material adverse effect on us.

We are directly exposed to operational risks at certain of our healthcare properties, which could adversely affect our revenue and operations.

As of December 31, 2016, we operated 46 properties pursuant to management agreements, excluding our unconsolidated ventures, whereby we have direct exposure to resident fee income and related operating expenses. As a result, by contrast to our net lease properties, we are directly exposed to various operational risks with respect to these healthcare properties that may increase our costs or adversely affect our ability to generate revenues and our profitability. These risks include: (i) fluctuations in occupancy; (ii) fluctuations in government reimbursement and private pay rates, including the inability to achieve economic resident fees; (iii) increases in the cost of food, materials, energy, labor (as a result of unionization or otherwise) or other services; (iv) rent control regulations; (v) national and regional economic conditions; (vi) the imposition of new or increased taxes; (vii) federal, state, local licensure, certification and inspection laws, regulations and standards; (viii) professional and general liability claims; and (ix) the availability and increases in cost of general and professional liability insurance coverage. Any one or a combination of these factors may adversely affect our revenue and operations and our ability to make distributions to stockholders.

In addition, as the licensed operator of these healthcare facilities (where applicable), we could be subject to penalties, including loss or suspension of license, certification or accreditation, exclusion from government healthcare programs (i.e. Medicare, Medicaid), administrative sanctions, civil monetary penalties and, in certain instances, criminal penalties. Additionally, we may have additional risk of professional liability claims arising out of an alleged breach of the applicable standard of care rules. Refer to "Regulation - Healthcare Regulation" included in Item 1 of this Annual Report on Form 10-K for further discussion.

We rely on our managers' personnel, expertise, technical resources and information systems, proprietary information, good faith and judgment to manage our senior housing facilities efficiently and effectively. We also rely on our managers to set appropriate

resident fees, to provide accurate property-level financial results for our properties in a timely manner and to otherwise operate our senior housing facilities in compliance with the terms of our management agreements and all applicable laws and regulations. For example, we depend upon our manager's ability to attract and retain skilled management personnel who are responsible for the day-to-day operations of our senior housing facilities. A shortage of nurses or other trained personnel or general inflationary pressures may force our managers to enhance their pay and benefits packages to compete effectively for such personnel, but it may not be able to effectively offset these increased costs by increasing rates to residents. Any increase in labor costs or other property operating expenses, any failure to attract and retain qualified personnel, or any significant changes in our managers' senior management or equity ownership or any adverse developments in their businesses and affairs or financial condition could have a material adverse effect on us.

The properties operated or managed by Watermark Retirement Communities, or Watermark, and Holiday Retirement, or Holiday, account for a significant portion of our revenues and operating income. Adverse developments in Watermark or Holidays business and affairs or financial condition could have a material adverse effect on us.

As of December 31, 2016, Watermark and Holiday collectively managed 46 of our senior housing facilities pursuant to management agreements. In addition, Watermark operated an additional six of our senior housing facilities pursuant to a net lease as of December 31, 2016. For the year ended December 31, 2016, gross revenues from Watermark and Holiday were 49.0% and 38.6% of our total revenues attributable to direct investments, respectively. Any adverse developments in Watermark or Holiday's business and affairs or financial condition could impair their respective ability to manage our properties efficiently and effectively and could have a materially adverse effect on us. If Watermark or Holiday experience any significant financial, legal, accounting or regulatory difficulties due to a weak economy or otherwise, such difficulties could result in, among other adverse events, acceleration of their respective indebtedness, impairment of their respective continued access to capital, the enforcement of default remedies by their respective counterparties or the commencement of insolvency proceedings by or against them, any one or a combination of which indirectly could have a materially adverse effect on us. In addition, any failure by Watermark or Holiday to effectively conduct their operations and maintain the properties could adversely affect their respective business reputations and ability to attract and retain patients or residents in our facilities.

Increased competition may affect our tenants', operators' and managers' ability to meet their obligations to us.

The healthcare industry is highly competitive, and our tenants, operators and managers may encounter increased competition for residents and patients, including with respect to the scope and quality of care and services provided, reputation and financial condition, physical appearance of the properties, price and location. Our tenants, operators and managers compete for labor, making their results sensitive to changes in the labor market and/or wages and benefits offered to their employees. If our tenants, operators and managers are unable to successfully compete with other tenants, operators and managers by maintaining profitable occupancy and rate levels or controlling labor costs, their ability to meet their respective obligations to us may be materially adversely affected.

Decreases in our tenants' and operators' revenues or increases in our tenants and operators' expenses could affect our tenants' and operators' ability to make payments to us.

Our tenants' and operators' revenues are primarily driven by occupancy, private pay rates, and Medicare and Medicaid reimbursement, if applicable. Expenses for these facilities are primarily driven by the costs of labor, food, utilities, taxes, insurance and rent or debt service. Revenues from government reimbursement may continue to be subject to reimbursement cuts and state budget shortfalls. Operating costs continue to increase for our tenants and operators. To the extent that any decrease in revenues and/or any increase in operating expenses result in a property not generating enough cash to make payments to us, the credit of our tenants or operator and the value of other collateral would have to be relied upon. Tenants/operators who are having trouble with their cash flow may be more likely to expose us to unknown liens and other risks to our assets. Our financial position could be weakened and our ability to fulfill our obligations under our real estate borrowings could be limited if our tenants/operators are unable to meet their obligations to us or we fail to renew or extend our contractual relationship with any of our tenants/operators. To the extent the value of such property is reduced, we may need to record an impairment for such asset. Furthermore, if we determine to dispose of an underperforming property, such sale may result in a loss. Any such impairment or loss on sale would negatively affect our financial results.

If we must replace any of our tenants, operators or managers, we might be unable to reposition the properties on as favorable terms, or at all, and we could be subject to delays, limitations and expenses, which could have a material adverse effect on us.

We cannot predict whether our tenants, operators or managers will renew existing leases or management agreements beyond their current terms. If our leases or management agreements are not renewed, we would attempt to reposition those properties with another tenant, operator or manager. Following expiration of a lease term or if we exercise our right to replace a tenant, operator or manager in default, rental payments on the related properties could decline or cease altogether while we reposition the properties with a suitable replacement tenant, operator or manager. We also may not be successful in identifying suitable replacements or

enter into leases or management agreements with new tenants, operators or managers on a timely basis or on terms as favorable to us as our current leases and management agreements, if at all, and we may be required to fund certain expenses and obligations (e.g., real estate taxes, debt costs and maintenance expenses) to preserve the value of, and avoid the imposition of liens on, our properties while they are being repositioned. In addition, we may incur certain obligations and liabilities, including obligations to indemnify the replacement tenant, operator or manager. Once a suitable replacement tenant/operator/manager has taken over operation of the properties, it may still take an extended period of time before the properties are fully repositioned and value restored, if at all. Any of these results could have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to stockholders.

In the event of non-renewal or a tenant/operator default, our ability to reposition our properties with a suitable replacement tenant or operator could be significantly delayed or limited by state licensing, receivership, CON or other laws, as well as by the Medicare and Medicaid change-of-ownership rules, and we could incur substantial additional expenses in connection with any licensing, receivership or change-of-ownership proceedings. Our ability to locate and attract a suitable replacement tenant, operator or manager also could be impaired by the specialized healthcare uses or contractual restrictions on use of the properties, and we may be forced to spend substantial amounts to adapt the properties to other uses. Any such delays, limitations and expenses could adversely impact our ability to collect rent, obtain possession of leased properties or otherwise exercise remedies for tenant defaults and could have a material adverse effect on us.

Moreover, our ability to exercise remedies under the applicable leases or management agreements or to reposition the applicable properties may be significantly delayed or limited by the terms of our borrowings. Any such delay or limit on our rights and remedies could adversely affect our ability to mitigate our losses and could have a material adverse effect on us.

The bankruptcy, insolvency or financial deterioration of any of our tenants/operators could significantly delay our ability to collect unpaid rents or require us to find new tenants/operators.

We are exposed to the risk that our tenants/operators may not be able to meet their obligations to us or other third parties, which may result in their bankruptcy or insolvency. Although our leases and loans permit us to evict a tenant/operator, demand immediate repayment and pursue other remedies, bankruptcy laws afford certain rights to a party that has filed for bankruptcy or reorganization. A tenant/operator in bankruptcy may be able to restrict our ability to collect unpaid rents or interest during the bankruptcy proceeding. Furthermore, dealing with a tenant/operator's bankruptcy or other default may divert management's attention and cause us to incur substantial legal and other costs.

We are subject to risks associated with capital expenditure obligations, such as declining real estate values and operating performance.

We are required to fund capital expenditures and other significant expenses for our real estate property investments. Future funding obligations subject us to significant risks, such as a decline in value of the property, cost overruns and the tenant/operator being unable to generate enough cash flow and execute its business plan in order to pay its obligations to us. We may determine that we need to fund more money than we originally anticipated in order to maximize the value of our investment even though there is no assurance additional funding would be the best course of action. Further, future funding obligations may require us to maintain higher liquidity than we might otherwise maintain and this could reduce the overall return on our investments. We could also find ourselves in a position with insufficient liquidity to fund future obligations.

We are responsible for certain capital improvements. To the extent such capital improvements are not undertaken, the ability of our tenants/operators to manage our properties effectively and on favorable terms may be affected, which in turn could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to stockholders.

We are responsible for certain capital improvements. To the extent capital improvements are not undertaken or are deferred, occupancy rates and the amount of rental and reimbursement income generated by the facility may decline, which would negatively impact the overall value of the affected facility. This risk may be heightened during periods of economic distress. We may be forced to incur unexpected significant expense to maintain our properties, even those that are net leased. Any of these results could have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to stockholders.

We may face additional risks associated with property development and redevelopment that can render a project less profitable or not profitable at all and, under certain circumstances, prevent completion of development activities once undertaken.

Property development is a component of certain of our investments. As a result, large-scale development of healthcare properties presents additional risks for us, including risks that:

- a development opportunity may be abandoned after expending significant resources;

- the development and construction costs of a project may exceed original estimates due to increased interest rates and higher materials, transportation, labor, leasing or other costs, which could make the completion of the development project less profitable;
- the project may not be completed on schedule as a result of a variety of factors that are beyond our control, including natural disasters, labor conditions, material shortages, regulatory hurdles, which can result in increases in construction costs; and
- occupancy rates and rents at a newly completed property may not meet expected levels and could be insufficient to make the property profitable.

Any of the foregoing risks could materially adversely affect our business, results of operations and financial condition.

Our lease transactions may not result in market rates over time.

We expect substantially all of our rental income to come from lease transactions, which may have longer terms than standard arrangements or renewal options that specify maximum rate increases. If we do not accurately judge the potential for increases in market rates, rental increases under the terms may fail to result in fair market rates over time. Further, we may have no ability to terminate our lease transactions or adjust the rent and fees to then-prevailing market rates. For example, triple net leases in connection with certain properties in the Griffin-American portfolio contain rent escalation provisions, which may not reflect market rates over time. As a result, our income and distributions to stockholders could be lower than they would otherwise be if we did not enter into such lease agreements.

Our joint venture partners could take actions that decrease the value of an investment to us and lower our overall return.

We currently have, and may in the future enter into, joint ventures with third parties to make investments. For example, we currently have joint ventures with NorthStar Realty, with respect to the Griffin-American and Eclipse portfolios, Formation, with respect to the Eclipse, Envoy and Espresso portfolios, and Griffin-American Healthcare REIT III, Inc. ("GAHR3"), with respect to the Trilogy portfolio and Watermark with respect to portions of the Fountains and Aqua portfolio. As of December 31, 2016, unconsolidated joint ventures represented 39.9% of our total real estate equity investments and joint ventures with respect to our direct investments represented 14.8% of our total real estate equity investments. Such investments may involve risks not otherwise present with other methods of investment, including, for example, the following risks:

- our joint venture partner in an investment could become insolvent or bankrupt;
- fraud or other misconduct by our joint venture partners;
- we may share decision-making authority with our joint venture partner regarding certain major decisions affecting the ownership of the joint venture and the joint venture property, such as the sale of the property or the making of additional capital contributions for the benefit of the property, which may prevent us from taking actions that are opposed by our joint venture partner;
- such joint venture partner may at any time have economic or business interests or goals that are or that become in conflict with our business interests or goals, including for example the operation of the properties;
- such joint venture partner may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives;
- our joint venture partners may be structured differently than us for tax purposes and this could create conflicts of interest and risk to our REIT status;
- we may rely upon our joint venture partners to manage the day-to-day operations of the joint venture and underlying assets, as well as to prepare financial information for the joint venture and any failure to perform these obligations may have a negative impact our performance and results of operations;
- our joint venture partner may experience a change of control, which could result in new management of our joint venture partner with less experience or conflicting interests to ours and be disruptive to our business; and
- the terms of our joint ventures could restrict our ability to sell or transfer our interest to a third party when we desire on advantageous terms, which could result in reduced liquidity.

Any of the above might subject us to liabilities and thus reduce our returns on our investment with that joint venture partner. In addition, disagreements or disputes between us and our joint venture partner could result in litigation, which could increase our expenses and potentially limit the time and effort our officers and directors are able to devote to our business.

Further, in some instances, we and/or our partner may have the right to trigger a buy-sell arrangement, which could cause us to sell our interest, or acquire our partner's interest, at a time when we otherwise would not have initiated such a transaction. Our ability to acquire our partner's interest may be limited if we do not have sufficient cash, available borrowing capacity or other capital resources. In such event, we may be forced to sell our interest in the joint venture when we would otherwise prefer to retain it.

Our tenants, operators and managers may be adversely affected by healthcare regulation and enforcement.

Regulation of the healthcare industry generally has intensified over time both in the number and type of regulations and in the efforts to enforce those regulations. Federal, state and local laws and regulations affecting the healthcare industry include those relating to, among other things, licensure, conduct of operations, ownership of facilities, addition of facilities and equipment, allowable costs, scope of services, prices for services, qualified beneficiaries, quality of care, patient rights, privacy and security, fraudulent or abusive behavior and financial and other arrangements that may be entered into by healthcare providers. In addition, changes in enforcement policies by federal and state governments have resulted in an increase in the number of inspections, citations of regulatory deficiencies and other regulatory sanctions, including terminations from the Medicare and Medicaid programs, bars on Medicare and Medicaid payments for new admissions, civil monetary penalties and even criminal penalties. See "Governmental Regulation–Healthcare Regulation" included in Item 1 of this Annual Report on Form 10-K. We are unable to predict the scope of future federal, state and local regulations and legislation, including the Medicare and Medicaid statutes and regulations, or the intensity of enforcement efforts with respect to such regulations and legislation, and any changes in the regulatory framework could have a material adverse effect on our tenants, operators and managers, which, in turn, could have a material adverse effect on us.

If our tenants, operators and managers fail to comply with the extensive laws, regulations and other requirements applicable to their businesses and the operation of our properties, they could become ineligible to render services or receive reimbursement from governmental and private third-party payor programs, face bans on admissions of new patients or residents, face loss of licensure or accreditation, suffer civil or criminal penalties or be required to make significant changes to their operations. Our tenants, operators and managers also could face increased costs related to changes in healthcare regulation, such as the possible repeal of the ACA by the new presidential administration and Republican-controlled Congress and a shift toward less comprehensive health coverage, or be forced to expend considerable resources in responding to an investigation or other enforcement action under applicable laws or regulations. In such event, the results of operations and financial condition of our tenants, operators and managers and the results of operations of our properties operated or managed by those entities could be adversely affected, which, in turn, could have a material adverse effect on us.

Current efforts by Congress and the new presidential administration to repeal and replace the ACA in total or in part and reform Medicare and Medicaid could negatively impact the operations and financial condition of our tenants and operators, which in turn may adversely impact us.

The ACA remains subject to continuing and increasing legislative scrutiny, including current efforts by Congress and the new presidential administration to repeal and replace the ACA in total or in part. If the ACA is repealed or substantially modified, or if implementation of certain aspects of the ACA are suspended, such action could negatively impact the operations and financial condition of our tenants and operators, which in turn may adversely impact us. Additionally, Congress is contemplating substantial reforms to the Medicare and Medicaid programs. Refer to "Regulation–Healthcare Regulation" included in Item 1 of this Annual Report on Form 10-K for further discussion. More generally, and because of the dynamic nature of the legislative and regulatory environment for healthcare products and services, in light of the current legislative environment and existing federal deficit and budgetary concerns, we cannot predict the impact that broad-based, far-reaching legislative or regulatory changes could have on the U.S. economy, our business or that of our tenants and operators.

Changes in the reimbursement rates or methods of payment from third-party payors, including the Medicare and Medicaid programs, could have a material adverse effect on certain of our tenants and operators and on us.

Certain of our tenants and operators rely on reimbursement from third-party payors, including the Medicare and Medicaid programs, for substantially all of their revenues. Federal and state legislators and healthcare financing authorities have adopted or proposed various cost-containment measures that would limit payments to healthcare providers and some states have declined to expand Medicaid participation under the ACA and have considered Medicaid rate freezes or cuts. See "Regulation–Healthcare Regulation" included in Item 1 of this Annual Report on Form 10-K. Private third-party payors also have continued their efforts to control healthcare costs. We cannot assure you that our tenants and operators who currently depend on governmental or private payor reimbursement will be adequately reimbursed for the services they provide. Significant limits by governmental and private third-party payors on the scope of services reimbursed or on reimbursement rates and fees, whether from legislation, administrative actions or private payor efforts, could have a material adverse effect on the liquidity, financial condition and results of operations of certain of our tenants and operators, which could adversely affect their ability to comply with the terms of our leases and have a material adverse effect on us.

Events that adversely affect the ability of seniors and their families to afford resident fees at our senior housing facilities could cause our occupancy rates, resident fee revenues and results of operations to decline.

Costs to seniors associated with independent and assisted living services are generally not reimbursable under government reimbursement programs such as Medicare and Medicaid. Only seniors with income or assets meeting or exceeding the comparable median in the regions where our facilities are located typically will be able to afford to pay the entrance fees and monthly resident fees, and a weak economy, depressed housing market or changes in demographics could adversely affect their continued ability to do so. If our tenants and operators are unable to retain and attract seniors with sufficient income, assets or other resources required to pay the fees associated with independent and assisted living services and other services provided by our tenants and operators at our healthcare facilities, our occupancy rates and resident fee revenues could decline, which could, in turn, materially adversely affect our business, results of operations and financial condition and our ability to make distributions to stockholders.

The hospitals on or near whose campuses many of our MOBs are located and their affiliated health systems could fail to remain competitive or financially viable, which could adversely impact their ability to attract physicians and physician groups to our MOBs.

Our MOB operations depend on the competitiveness and financial viability of the hospitals on or near whose campuses our MOBs are located and their ability to attract physicians and other healthcare-related clients to our MOBs. The viability of these hospitals, in turn, depends on factors such as the quality and mix of healthcare services provided, competition for patients, physicians and physician groups, demographic trends in the surrounding community, market position and growth potential. Because we rely on proximity to and affiliations with hospitals to create leasing demand in our MOBs, a hospital's inability to remain competitive or financially viable, or to attract physicians and physician groups, could materially adversely affect our MOB operations and have a material adverse effect on us.

Our tenants, operators and managers may be sued under a state or federal whistleblower statute.

Our operators, tenants and managers who engage in business with the state or federal government may be sued under a state or federal whistleblower statute designed to combat fraud and abuse in the healthcare industry. See "Regulation–Healthcare Regulation" included in Item 1 of this Annual Report on Form 10-K. These lawsuits can involve significant monetary damages and award bounties to private plaintiffs who successfully bring these suits. If any of these lawsuits were brought against our operators, tenants or managers, such suits combined with increased operating costs and substantial uninsured liabilities could have a material adverse effect on our operators', tenants' and managers' liquidity, financial condition and results of operations and on their ability to satisfy their obligations under our leases and management agreements, which, in turn, could have a material adverse effect on us.

Our tenants, operators and managers are faced with increased litigation and rising insurance costs that may affect their ability to meet their obligations to us.

In some states, advocacy groups have been created to monitor the quality of care at healthcare facilities and these groups have brought litigation against healthcare operators. Also, in several instances, private litigation by patients has succeeded in winning very large damage awards for alleged abuses. The effect of this litigation and potential litigation has been to materially increase the costs of monitoring and reporting quality of care compliance. In addition, the cost of liability and medical malpractice insurance has increased and may continue to increase so long as the present litigation environment affecting the operations of healthcare facilities continues. Continued cost increases could cause our tenants, operators and managers to be unable to meet their obligations to us, potentially decreasing our revenue and increasing our collection and litigation costs. Moreover, to the extent we are required to take back the affected facilities, our revenue from those facilities could be reduced or eliminated for an extended period of time.

Insurance may not cover all potential losses on commercial real estate investments, which may impair the value of our assets.

We generally require that our tenants/operators, as well as the borrowers under our commercial real estate debt investments, obtain comprehensive insurance covering the property, including liability, fire and extended coverage. We also generally obtain insurance directly on any property we acquire. We believe all of our properties are adequately insured. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods and hurricanes that may be uninsurable or not economically insurable. We may not obtain, or require tenants/operators or borrowers to obtain, certain types of insurance if it is deemed commercially unreasonable. Inflation, changes in building codes and ordinances, environmental considerations and other factors also might make it infeasible to use insurance proceeds to replace a property if it is damaged or destroyed. Under such circumstances, the insurance proceeds, if any, might not be adequate to restore the economic value of the property, which might decrease the value of the property and in turn impair our investment.

Compliance with the ADA, Fair Housing Act and fire, safety and other regulations may require us, our borrowers or our operators to make unanticipated expenditures which could adversely affect our business, financial condition and results of operations and our ability to make distributions to stockholders.

Our properties are required to comply with the ADA, which generally requires that buildings be made accessible to people with disabilities. We must also comply with the Fair Housing Act, which prohibits us and our operators from discriminating against individuals on certain bases in any of our practices if it would cause such individuals to face barriers in gaining residency in any of our facilities. In addition, our properties are required to operate in compliance with applicable fire and safety regulations, building codes and other land use regulations and licensing or certification requirements adopted by governmental agencies and bodies from time-to-time. We may be required to incur substantial costs to comply with those requirements. Changes in labor and other laws could also negatively impact us, our borrowers and our operators. For instance, changes to labor-related statutes or regulations could significantly impact the cost of labor in the workforce, which would increase the costs faced by our borrowers and operators and increase their likelihood of default.

Environmental compliance costs and liabilities associated with our properties or our real estate-related investments may materially impair the value of our investments and expose us to liability.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner of real property, such as us and our operators, may be liable in certain circumstances for the costs of investigation, removal or remediation of, or related releases of, certain hazardous or toxic substances, including materials containing asbestos, at, under or disposed of in connection with such property, as well as certain other potential costs relating to hazardous or toxic substances, including government fines and damages for injuries to persons and adjacent property. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and the costs it incurs in connection with the contamination. These laws often impose liability without regard to whether the owner knew of, or was responsible for, the presence or disposal of such substances and liability may be imposed on the owner in connection with the activities of a tenant at the property. The presence of contamination or the failure to remediate contamination may adversely affect our ability to sell or lease real estate, or to borrow using the real estate as collateral, which, in turn, could reduce our revenues. We, as owner of a site, including if we take ownership through foreclosure, may be liable under common law or otherwise to third parties for damages and injuries resulting from environmental contamination emanating from the site. The cost of any required investigation, remediation, removal, fines or personal or property damages and our or our operators' liability could significantly exceed the value of the property without any limits.

The scope of the indemnification our operators have agreed to provide us may be limited. For instance, some of our agreements with our operators do not require them to indemnify us for environmental liabilities arising before the tenant took possession of the premises. Further, we cannot assure stockholders that any such tenant would be able to fulfill its indemnification obligations. If we were deemed liable for any such environmental liabilities and were unable to seek recovery against our tenant, our business, financial condition and results of operations could be materially and adversely affected.

Furthermore, we may invest in real estate, or mortgage loans secured by real estate, with environmental problems that materially impair the value of the real estate. Even as a lender, if we take title to collateral with environmental problems or if other circumstances arise, we could be subject to environmental liability. There are substantial risks associated with such an investment.

We are subject to additional risks due to our international investments.

We have acquired real estate assets located outside of the United States through our investment in the Griffin-American portfolio, which includes properties in the United Kingdom. Our international investments may be affected by factors peculiar to the laws of the jurisdiction in which the property and these laws may expose us to risks that are different from those commonly found in the United States. These risks include, but are not limited to:

- governmental laws, rules and policies, including laws relating to the foreign ownership of real property and laws relating to 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;
- translation and transaction risks relating to fluctuations in foreign currency exchange rates;
- adverse market conditions caused by inflation or other changes in national or local political and economic conditions;
- challenges of complying with a wide variety of foreign laws;
- changes in the availability, cost and terms of borrowings resulting from varying national economic policies;
- changes in applicable laws and regulations in the United States that affect foreign operations; and

- legal and logistical barriers to enforcing our contractual rights in other countries, including insolvency regimes, landlord/tenant rights and ability to take possession of the collateral.

The commercial real estate debt we originate and invest in and mortgage loans underlying the commercial real estate securities we invest in are subject to risks of delinquency, taking title to collateral, loss and bankruptcy of the borrower under the loan. If the borrower defaults, it may result in losses to us.

Our commercial real estate debt investments are secured by commercial real estate and are subject to risks of delinquency, loss, taking title to collateral and bankruptcy of the borrower. The ability of a borrower to repay a loan secured by commercial real estate is typically dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced or is not increased, depending on the borrower's business plan, the borrower's ability to repay the loan may be impaired. If a borrower defaults or declares bankruptcy and the underlying asset value is less than the loan amount, we will suffer a loss. In this manner, real estate values could impact the value of our commercial real estate debt and securities investments. Therefore, our commercial real estate debt and securities will be subject to the risks typically associated with real estate.

Additionally, we may suffer losses for a number of reasons, including the following, which could have a material adverse effect on our financial performance:

- the value of the assets securing our commercial real estate debt investments may deteriorate over time due to factors beyond our control, which may result in a loss of principal or interest to the extent the assets collateralizing our commercial real estate debt are insufficient to satisfy the loan;
- a borrower or guarantor may not comply with its financial covenants or may not have sufficient assets available to pay amounts owed to us under our commercial real estate debt and related guarantees, particularly in periods of challenging economic and market conditions;
- our due diligence may not reveal all of a borrower's liabilities and may not reveal other weaknesses in its business;
- taking title to collateral, or otherwise liquidating defaulted commercial real estate debt investments, can be an expensive and lengthy process that could have a negative effect on the return on our investment; and
- we may need to restructure loans if our borrowers are unable to meet their obligations to us, which might include lowering interest rates, extending maturities or making other concessions that may result in the loss of some or all of our investment. Further, we may be unable to restructure loans in a manner that we believe would maximize value, particularly in situations where there are multiple creditors and/or a large lender group.

The subordinate commercial real estate debt we originate and invest in may be subject to risks relating to the structure and terms of the related transactions, as well as subordination in bankruptcy, and there may not be sufficient funds or assets remaining to satisfy our investments, which may result in losses to us.

We originate, structure and acquire subordinate commercial real estate debt investments secured primarily by commercial properties, which may include subordinate mortgage loans, mezzanine loans and participations in such loans and preferred equity interests in borrowers who own such properties. These investments may be subordinate to other debt on commercial property and are secured by subordinate rights to the commercial property or by equity interests in the borrower. In addition, real properties with subordinate debt may have higher loan-to-value ratios than conventional debt, resulting in less equity in the real property and increasing the risk of loss of principal and interest. If a borrower defaults or declares bankruptcy, after senior obligations are met, there may not be sufficient funds or assets remaining to satisfy our subordinate interests. Because each transaction is privately negotiated, subordinate investments can vary in their structural characteristics and lender rights. Our rights to control the default or bankruptcy process following a default will vary from transaction to transaction. The subordinate investments that we originate and invest in may not give us the right to demand taking title to collateral as a subordinate real estate debt holder. Furthermore, the presence of intercreditor agreements may limit our ability to amend our loan documents, assign our loans, accept prepayments, exercise our remedies and control decisions made in bankruptcy proceedings relating to borrowers. Similarly, a majority of the participating lenders may be able to take actions to which we object, but by which we will be bound. Even if we have control, we may be unable to prevent a default or bankruptcy and we could suffer substantial losses. Certain transactions that we originated and invested in could be particularly difficult, time consuming and costly to work out because of their complicated structure and the diverging interests of all the various classes of debt in the capital structure of a given asset.

Our debt and securities investments may be adversely affected by changes in credit spreads.

Our debt we originate or acquire and securities investments we may invest in are subject to changes in credit spreads. When credit spreads widen, the economic value of our investments decrease even if such investment is performing in accordance with its terms and the underlying collateral has not changed.

We invest in healthcare-related securities, including CMBS or securitization trusts, which entail certain heightened risks.

We invest in a variety of healthcare-related securities, including CMBS or securitization trusts, subject to the first risk of loss if any losses are realized on the underlying mortgage loans. CMBS or securitization trusts entitle the holders thereof to receive payments that depend primarily on the cash flow from a specified pool of commercial mortgage loans. Consequently, CMBS and other healthcare-related securities will be adversely affected by payment defaults, delinquencies and losses on the underlying mortgage loans, which increase during times of economic stress and uncertainty. Furthermore, if the rental and leasing markets deteriorate, including by decreasing occupancy rates and decreasing market rental rates, it could reduce cash flow from the mortgage loan pools underlying CMBS or securitization trust investments that we may make. The market for healthcare-related securities is dependent upon liquidity for refinancing and may be negatively impacted by a slowdown in new issuance.

Additionally, healthcare-related securities such as CMBS or securitization trusts may be subject to particular risks, including lack of standardized terms and payment of all or substantially all of the principal only at maturity rather than regular amortization of principal. The value of commercial real estate securities may change due to shifts in the market's perception of issuers and regulatory or tax changes adversely affecting the commercial real estate debt market as a whole. Additional risks may be presented as a result of the specialized nature of the particular property, such as risks presented by hospitals, nursing homes and other healthcare property types, as well as the general risks relating to the net operating income from and value of any commercial property. The exercise of remedies and successful realization of liquidation proceeds relating to healthcare-related securities may be highly dependent upon the performance of the servicer or special servicer. Expenses of enforcing the underlying mortgage loan (including litigation expenses) and expenses of protecting the properties securing the loan may be substantial. Consequently, in the event of a default or loss on one or more loans contained in a securitization, we may not recover a portion or all of our investment. Further, we may be unable to influence the exercise of certain remedies on our current securitization trust investment for certain loans in this securitization trust on underlying properties of the Eclipse portfolio as we have an equity interest in the underlying property. Ratings for healthcare-related securities can also adversely affect their value.

We face increasing competition for the acquisition of senior housing and other healthcare properties which may impede our ability to make acquisitions or may increase the cost of these acquisitions which, in turn, could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to stockholders.

We compete with many other businesses, including the Managed Companies, engaged in real estate investment activities for the acquisition of mid-acuity senior housing and other healthcare properties. These competitors include local, regional and national operators and acquirers and developers of healthcare real estate. The competition for senior housing and other healthcare properties may significantly increase the price we might pay for a facility or property we seek to acquire and our competitors may succeed in acquiring those facilities or properties themselves. In addition, operators with whom we attempt to do business may find our competitors to be more attractive because they may have greater resources, may be willing to pay more for the properties or may have a more compatible operating philosophy. In particular, larger healthcare REITs and other market participants may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. In addition, the number of entities and the amount of funds competing for suitable investment properties may increase. This competition may result in increased demand for these assets and therefore increased prices paid for them. If we pay higher prices for healthcare properties, our business, financial condition and results of operations and our ability to make distributions to stockholders may be materially adversely affected.

We may obtain only limited warranties when we purchase a property, which will increase the risk that we may lose some or all of our invested capital in the property or rental income from the property which, in turn, could materially adversely affect our business, financial condition and results from operations and our ability to make distributions to stockholders.

The seller of a property often sells such property in an "as is" condition on a "where is" basis and "with all faults," without any warranties of merchantability or fitness for a particular use or purpose. In addition, the related real estate purchase and sale agreements may contain only limited warranties, representations and indemnifications that will only survive for a limited period after the closing. Despite our efforts, we may fail to uncover all material risks during our diligence process. The purchase of properties with limited warranties increases the risk that we may lose some or all of our invested capital in the property, as well as the loss of rental income from that property if an issue should arise that decreases the value of that property and is not covered by the limited warranties. If any of these results occur, it may have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to stockholders.

The price we pay for acquisitions of real property and the terms of our commercial real estate debt investments will be based on our projections of market demand, occupancy and rental income, as well as on market factors, and our return on our investment may be lower than expected if any of our projections are inaccurate.

The price we pay for real property investments and the terms of our debt investments will be based on our projections of market demand, occupancy levels, rental income, the costs of any development, redevelopment or renovation of a property, borrower expertise and other factors. In addition, increased competition in the real estate market may drive up prices for real estate assets or make loan origination terms less favorable to us. If any of our projections are inaccurate or we ascribe a higher value to assets and their value subsequently drops or fails to rise because of market factors, returns on our investment may be lower than expected and we could experience losses. This may be particularly pronounced during periods of market dislocation.

We have no established investment criteria limiting the geographic concentration of our investments. If our investments are concentrated in a particular region that experiences adverse economic conditions, our investments may lose value and we may experience losses.

Our properties may be concentrated in a geographic location. These current and future investments carry the risks associated with significant geographical concentration. We have not established and do not plan to establish any investment criteria to limit our exposure to these risks for future investments. As a result, our investments may be overly concentrated in certain geographic areas and we may experience losses as a result. A worsening of economic conditions, a natural disaster or civil disruptions in a geographic area in which our investments may be concentrated, or economic upheaval with respect to a particular region, could have an adverse effect on our business, including impairing the value of our properties, which in turn may limit our ability to make required payments under our financings or refinance such borrowings.

We have no established investment criteria limiting the size of each investment we make in healthcare-related equity, debt and securities investments. If we have an investment that represents a material percentage of our assets and that investment experiences a loss, the value of stockholders' investment in us could be significantly diminished.

We are not limited in the size of any single investment we may make and certain of our healthcare-related equity, debt and securities investments may represent a significant percentage of our assets. Any such investment may carry the risk associated with a significant asset concentration. Should any investment representing a material percentage of our assets experience a loss on all or a portion of the investment, we could experience a material adverse effect, which would result in the value of stockholders' investment in us being diminished.

We may make opportunistic investments that may involve asset classes and structures with which we have less familiarity, thereby increasing our risk of loss.

We may make opportunistic investments that may involve asset classes and structures with which we have less familiarity. For example, our investment in Trilogy includes ancillary services businesses, such as a pharmacy and therapy business, for which we have no prior experience. When investing in asset classes with which we have limited or no prior experience, we may not be successful in our diligence and underwriting efforts. We may also be unsuccessful in preserving value, especially if conditions deteriorate, and we may expose ourselves to unknown substantial risks. Furthermore, these assets could require additional management time and attention relative to assets with which we are more familiar. All of these factors increase our risk of loss.

Because real estate investments are relatively illiquid, we may not be able to vary our portfolio in response to changes in economic and other conditions, which may result in losses to us.

Many of our investments are illiquid. A variety of factors could make it difficult for us to dispose of any of our assets on acceptable terms even if a disposition is in the best interests of stockholders. We cannot predict whether we will be able to sell any property for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. Certain of our properties are special purpose properties that could not be readily converted to general residential, retail or office use. Additionally, transfers of operations of healthcare properties are subject to regulatory approvals not required for transfers of other types of commercial operations and real estate. Certain properties may also be subject to transfer restrictions that materially restrict us from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of financing that can be placed or repaid on that property. We may be required to expend cash to correct defects or to make improvements before a property can be sold, and we cannot assure that we will have cash available to correct those defects or to make those improvements. The Internal Revenue Code also places limits on our ability to sell certain properties held for fewer than two years.

We may also determine to give our tenants a right of first refusal or similar options. Similarly, borrowers under certain of our commercial real estate debt investments may give their tenants or other persons similar rights with respect to the collateral. Such rights could negatively affect the residual value or marketability of the property and impede our ability to sell the property or collateral.

As a result, our ability to sell investments in response to changes in economic and other conditions could be limited. To the extent we are unable to sell any property for its book value, or at all, we may be required to take a non-cash impairment charge or loss on the sale, either of which would reduce our earnings. Limitations on our ability to respond to adverse changes in the performance of our properties may have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to stockholders.

Risks Related to Our Financing Strategy

We use significant leverage in connection with our investments, which increases the risk of loss associated with our investments and restricts our ability to engage in certain activities.

As of December 31, 2016, we had $1.2 billion of borrowings outstanding. In addition, our unconsolidated joint ventures have significant borrowings outstanding. We may also incur additional borrowings in the future to satisfy our capital and liquidity needs, including recourse borrowings. Although the use of leverage may enhance returns and increase the number of investments that we can make, it may increase our risk of loss, impact our liquidity and restrict our ability to engage in certain activities. Our substantial borrowings, among other things, may:

- require us to dedicate a large portion of our cash flow to pay principal and interest on our borrowings, which will reduce the availability of cash flow to fund working capital, capital expenditures and other business activities;
- require us to maintain minimum cash balances;
- increase our vulnerability to general adverse economic and industry conditions, as well as operational failures by our tenants, operators and managers;
- require us to post additional reserves and other additional collateral to support our financing arrangements, which could reduce our liquidity and limit our ability to leverage our assets;
- subject us to maintaining various debt, operating income, net worth, cash flow and other covenants and financial ratios;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- restrict our operating policies and ability to make strategic acquisitions, dispositions or exploit business opportunities;
- require us to maintain a borrowing base of assets;
- place us at a competitive disadvantage compared to our competitors that have fewer borrowings;
- put us in a position that necessitates raising equity capital at a time that is unfavorable to us and dilutive to our stockholders;
- limit our ability to borrow additional funds (even when necessary to maintain adequate liquidity), dispose of assets or make distributions to stockholders; and
- increase our cost of capital.

If we fail to comply with the covenants in the instruments governing our borrowings or do not generate sufficient cash flow to service our borrowings, our liquidity may be materially and adversely affected. If we default, including as a result of a cross-default due to a tenant or operator's default under our leases, we may be required to repay outstanding obligations, together with penalties, prior to the stated maturity, post additional collateral, subject our assets to foreclosure and/or need to seek protection under bankruptcy laws. Further, we may be unable to refinance existing borrowing obligations when they become due on favorable terms, or at all, which could have a material adverse impact on our results of operations.

We may not be able to access financing sources on attractive terms, if at all, which could adversely affect our ability to execute our business plan.

Our ability to effectively execute our financing strategy depends on various conditions in the financing markets that are beyond our control, including liquidity, health of the CMBS markets and credit spreads. While we seek non-recourse long-term financing to finance our assets, such financing may not be available to us on favorable terms or at all. Even with non-recourse financing, we typically enter into guarantees for limited bad acts, environmental matters and other conditions that could impose recourse liability on us. If our strategy is not viable, we will have to find alternative forms of financing for our assets, which may include more restrictive recourse borrowings and borrowings with higher debt service that limit our ability to engage in certain transactions and reduce our cash available for distribution to stockholders. If alternative financing is not available on favorable terms, or at all, we may have to liquidate assets at unfavorable prices to pay off such financing. In addition, we may seek corporate-level recourse borrowings to provide us with additional liquidity. Our return on our investments and distributions to stockholders may be reduced to the extent that changes in market conditions affect our ability to obtain financing or increase the cost of such financing.

We have broad authority to use leverage and high levels of leverage could hinder our ability to make distributions and decrease the value of stockholders' investment.

Our charter does not limit us from utilizing financing until our borrowings exceed 300% of our net assets, which is generally expected to approximate 75% of the aggregate cost of our investments, including cash, before deducting loan loss reserves, other non-cash reserves and depreciation. Further, we can incur financings in excess of this limitation with the approval of a majority of our independent directors. High leverage levels would cause us to incur higher interest charges and higher debt service payments and the agreements governing our borrowings may also include restrictive covenants. These factors could limit the amount of cash we have available to distribute to stockholders and could result in a decline in the value of stockholders' investment.

Our performance can be negatively affected by fluctuations in interest rates and shifts in the yield curve may cause losses.

Our financial performance is influenced by changes in interest rates, in particular, such changes may affect our floating-rate borrowings, as well as our debt and securities investments. Changes in interest rates, including changes in expected interest rates or "yield curves," affect our business in a number of ways. If market interest rates increase, the interest rate on any variable rate borrowings will increase and will create higher debt service requirements, which would adversely affect our cash flow and could adversely impact our results of operations. In addition, changes in the general level of interest rates can affect our net interest income, which is the difference between the interest income earned on our interest-earning assets and the interest expense incurred in connection with our interest-bearing borrowings and hedges. Changes in the level of interest rates also can affect, among other things, our ability to acquire securities, originate or acquire debt at attractive prices and enter into hedging transactions. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond our control.

Interest rate changes may also impact our net book value as our securities and hedge derivatives, if any, are marked to market each quarter. Generally, as interest rates increase, the value of our fixed rate securities decreases, which will decrease the book value of our equity.

Furthermore, shifts in the U.S. Treasury yield curve reflecting an increase in interest rates would also affect the yield required on our securities and therefore their value. For instance, increasing interest rates would reduce the value of the fixed rate assets we hold at the time because the higher yields required by increased interest rates result in lower market prices on existing fixed rate assets in order to adjust the yield upward to meet the market and vice versa. This would have similar effects on our securities portfolio and our financial position and operations as a change in interest rates generally.

Hedging against interest rate and currency exposure may adversely affect our earnings, limit our gains or result in losses, which could adversely affect cash available for distribution to stockholders.

We may enter into swap, cap or floor agreements or pursue other interest rate or currency hedging strategies. Our hedging activity will vary in scope based on interest rate levels, currency exposure, the type of investments held and other changing market conditions. Interest rate and/or currency hedging may fail to protect or could adversely affect us because, among other things:

- interest rate and/or currency hedging can be expensive, particularly during periods of rising and volatile interest rates;
- available interest rate and/or currency hedging may not correspond directly with the risk for which protection is sought;
- the duration of the hedge may not match the duration of the related liability or asset;
- our hedging opportunities may be limited by the treatment of income from hedging transactions under the rules determining REIT qualification;
- the credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction;
- the counterparties with which we trade may cease making markets and quoting prices in such instruments, which may render us unable to enter into an offsetting transaction with respect to an open position;
- the party owing money in the hedging transaction may default on its obligation to pay; and
- we may purchase a hedge that turns out not to be necessary, i.e., a hedge that is out of the money.

Any hedging activity we engage in may adversely affect our earnings, which could adversely affect cash available for distribution to stockholders. Therefore, while we may enter into such transactions to seek to reduce interest rate and/or currency risks, unanticipated changes in interest rates or exchange rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged or liabilities being hedged may vary

materially. Moreover, for a variety of reasons, we may not be able to establish a perfect correlation between hedging instruments and the investments being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. Our hedging activities, if not undertaken in compliance with certain federal income tax requirements, could also adversely affect our ability to qualify for taxation as a REIT.

Risks Related to Our Company

Colony NorthStar, our Sponsor and the parent company of our Advisor, recently completed its previously announced mergers with Colony and NorthStar Realty, which could have an adverse impact on our business.

In January 2017, Colony NorthStar, our Sponsor and the parent company of our Advisor, completed its mergers with Colony and NorthStar Realty, becoming publicly-traded and the successor to NSAM. As a result of the mergers, Colony NorthStar became an internally-managed equity REIT, with a diversified real estate and investment management platform. In addition, as a result of the mergers, our Advisor became a subsidiary of Colony NorthStar.

Uncertainty about the effect of the mergers on employees, clients and business of Colony NorthStar may have an adverse effect on Colony NorthStar and subsequently on us and the other Managed Companies following the mergers. These uncertainties could disrupt Colony NorthStar's business and impair its ability to attract, retain and motivate key personnel, and cause clients and others that deal with Colony NorthStar to seek to change existing business relationships, cease doing business with Colony NorthStar or cause potential new clients to delay doing business with Colony NorthStar. Retention and motivation of certain employees may be challenging due to the uncertainty and difficulty of integration or a desire not to remain with Colony NorthStar. As a result of the foregoing, management of our company may be adversely affected. Further, the completion of the mergers may give rise to additional conflicts of interest and competition for investment opportunities among Colony NorthStar, us and the other Managed Companies.

The loss of or the inability to obtain key investment professionals at our Sponsor or its affiliates could delay or hinder implementation of our investment strategies, which could limit our ability to make distributions and decrease the value of stockholders' investments.

Our success depends to a significant degree upon the contributions of key personnel at our Sponsor or its affiliates, such as Messrs. Barrack, Hamamoto, Saltzman, Gilbert, Tangen, Sanders, Gatenio, Jeanneault, Saracino and Bath and Ms. Harrington, among others, each of whom would be difficult to replace. We cannot assure stockholders that they will continue to be associated with our Sponsor or its affiliates in the future. If any of these persons were to cease their association with us or our Sponsor or its affiliates, our operating results could suffer. We do not intend to maintain key person life insurance on any person. We believe that our future success depends, in large part, upon our Sponsor and its affiliates' ability to hire and retain highly-skilled managerial, operational and marketing professionals. Competition for such professionals is intense, and our Sponsor and its affiliates may be unsuccessful in attracting and retaining such skilled individuals. If our Sponsor loses or is unable to obtain the services of highly-skilled professionals, our ability to implement our investment strategies could be delayed or hindered and the value of our common stock may decline.

Any adverse changes in our Sponsor's financial health, the public perception of our Sponsor, or our relationship with our Sponsor or its affiliates could hinder our operating performance and the return on stockholders' investment.

We have engaged our Advisor to manage our operations and our investments. Our ability to achieve our investment objectives and to pay distributions is dependent upon the performance of our Sponsor and its affiliates as well as our Sponsor's investment professionals in the identification and origination or acquisition of investments, the determination of any financing arrangement, the management of our assets and operation of our day-to-day activities.

Because our Sponsor is a publicly-traded company, any negative reaction by the stock market reflected in its stock price or deterioration in the public perception of our Sponsor or other Managed Companies that are publicly traded, such as NorthStar Realty Europe Corp. (NYSE: NRE), could result in an adverse effect on our ability to acquire assets and obtain financing from third parties on favorable terms. Recently, our Sponsor completed the mergers which combined NSAM, Colony Capital and NorthStar Realty into Colony NorthStar, and a failure to achieve the anticipated benefits of the mergers or integrate effectively may disrupt our operations and potentially harm our business. Any adverse changes in our Sponsor's financial condition or our relationship with our Sponsor, our Advisor and their respective affiliates could hinder our Advisor's ability to successfully manage our operations and our portfolio of investments.

Our Sponsor may determine not to provide assistance, personnel support or other resources to our Advisor or us, which could impact our ability to achieve our investment objectives and pay distributions.

We rely on our Sponsor and its affiliates' personnel and other support for the purposes of originating, acquiring and managing our investment portfolio. Our Sponsor, however, may determine not to provide assistance to our Advisor or us. Consequently, if our

Sponsor and its professionals determine not to provide our Advisor or us with any assistance or other resources, we may not achieve the same success that we would expect to achieve with such assistance, personnel support and resources. Further, in connection with the mergers, in order to achieve anticipated synergies or otherwise during periods of economic retraction, our Sponsor and/or our Advisor may be incented to reduce its personnel and costs, which could have an adverse effect on us.

We rely upon AHI to provide management services for certain of our healthcare properties and their failure to do so, or conflicts of interest they may face, could harm our business.

Our Advisor has delegated certain asset management functions to AHI. As of December 31, 2016, AHI provides these asset management services in connection with our Griffin-American and Winterfell portfolios. If AHI suffers adverse financial or operational problems or were to lose the benefit of the experience, efforts and abilities of its key personnel, our operations may suffer and we may be unable to achieve our investment objectives. In addition, AHI and its officers may face competing demands relating to their time and resources because they are or may become affiliated with entities with investment programs similar to ours and they may have other business interests as well. Because these persons have competing interests for their time and resources, they may have conflicts of interest in allocating their time between our business and these other activities. Further, during times of intense activity in other programs, those executives may devote less time and fewer resources to our business than are necessary or appropriate to manage our business. Poor or inadequate management of our business would adversely affect our results of operations and the ownership value of shares of our common stock.

We do not own the NorthStar name, but were granted a license by our Sponsor to use the NorthStar name. Use of the name by other parties or the termination of our license may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to stockholders.

Pursuant to our advisory agreement, we were granted a non-exclusive, royalty-free license to use the name "NorthStar." Under this license, we have a right to use the "NorthStar" name as long as our Advisor continues to advise us. Our Sponsor will retain the right to continue using the "NorthStar" name. We are unable to preclude our Sponsor from licensing or transferring the ownership of the "NorthStar" name to third parties, some of whom may compete against us. Consequently, we will be unable to prevent any damage to the goodwill associated with our name that may occur as a result of the activities of our Sponsor or others related to the use of our name. In addition, in the event the license is terminated, we will be required to change our name and cease using the "NorthStar" name. Furthermore, "NorthStar" is commonly used and our Sponsor's right to use the name could be challenged, which could be expensive and disruptive with an uncertain outcome. Any of these events could disrupt our recognition in the market place, damage any goodwill we may have generated and may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to stockholders.

Stockholders may be more likely to sustain a loss on their investment because our Sponsor does not have as strong an economic incentive to avoid losses as do sponsors who have made significant equity investments in their companies.

While our Sponsor has incurred substantial costs and devoted significant resources to support our business, as of December 31, 2016, our Sponsor has only invested $5.5 million in us through the purchase by its subsidiary (previously a subsidiary NorthStar Realty) of 610,339 shares of our common stock including amounts related to its obligation under the distribution support agreement that terminated in connection with the completion of our Offering. As a result, our Sponsor has minimal exposure to loss in the value of our shares. Without greater exposure, stockholders may be at a greater risk of loss because our Sponsor does not have as much to lose from a decrease in the value of our shares as do those sponsors who make more significant equity investments in their sponsored companies.

If our Advisor's portfolio management systems are ineffective, we may be exposed to material unanticipated losses.

Our Advisor refines its portfolio management techniques, strategies and assessment methods. However, our Advisor's portfolio management techniques and strategies may not fully mitigate the risk exposure of our operations in all economic or market environments, or against all types of risk, including risks that we might fail to identify or anticipate. Any failures in our Advisor's portfolio management techniques and strategies to accurately quantify such risk exposure could limit our ability to manage risks in our operations or to seek adequate risk adjusted returns and could result in losses.

We are highly dependent on information systems and systems failures could significantly disrupt our business.

As a commercial real estate company, our business is highly dependent on information technology systems, including systems provided by our Sponsor and third parties for which we have no control. Various measures have been implemented to manage our risks related to the information technology systems, but any failure or interruption of our systems could cause delays or other problems in our activities, which could have a material adverse effect on our financial performance. Potential sources for disruption, damage or failure of our information technology systems include, without limitation, computer viruses, security breaches, human error, cyber attacks, natural disasters and defects in design.

Failure to implement effective information and cyber security policies, procedures and capabilities could disrupt our business and harm our results of operations.

We are dependent on the effectiveness of our information and cyber security policies, procedures and capabilities to protect our computer and telecommunications systems and the data that resides on or is transmitted through them. An externally caused information security incident, such as a hacker attack, virus or worm, or an internally caused issue, such as failure to control access to sensitive systems, could materially interrupt business operations or cause disclosure or modification of sensitive or confidential information and could result in material financial loss, loss of competitive position, regulatory actions, breach of contracts, reputational harm or legal liability.

The use of estimates and valuations may be different from actual results, which could have a material effect on our consolidated financial statements.

We make various estimates that affect reported amounts and disclosures. Broadly, those estimates are used in measuring the fair value of certain financial instruments, establishing provision for loan losses and potential litigation liability. Market volatility may make it difficult to determine the fair value for certain of our assets and liabilities. Subsequent valuations, in light of factors then prevailing, may result in significant changes in the values of these financial instruments in future periods. In addition, at the time of any sales and settlements of these assets and liabilities, the price we ultimately realize will depend on the demand and liquidity in the market at that time for that particular type of asset and may be materially lower than our estimate of their current fair value. Estimates are based on available information and judgment. Therefore, actual values and results could differ from our estimates and that difference could have a material adverse effect on our consolidated financial statements.

We provide stockholders with information using funds from operations, or FFO, and MFFO, which are non-GAAP financial measures that may not be meaningful for comparing the performances of different REITs and that have certain other limitations.

We provide stockholders with information using FFO and MFFO which are non-GAAP measures, as additional measures of our operating performance. We compute FFO in accordance with the standards established by National Association of Real Estate Investment Trusts, or NAREIT. We compute MFFO in accordance with the definition established by the Investment Program Association, or the IPA. However, our computation of FFO and MFFO may not be comparable to other REITs that do not calculate FFO or MFFO using these definitions without further adjustments.

Neither FFO nor MFFO is equivalent to net income or cash generated from operating activities determined in accordance with U.S. GAAP and should not be considered as an alternative to net income, as an indicator of our operating performance or as an alternative to cash flow from operating activities as a measure of our liquidity.

We may not be able to make distributions in the future.

Our ability to generate income and to make distributions may be adversely affected by the risks described in this Annual Report on Form 10-K and any document we file with the SEC. All distributions are made at the discretion of our board of directors, subject to applicable law, and depend on our earnings, our financial condition, maintenance of our REIT qualification and such other factors as our board of directors may deem relevant from time-to-time. We may not be able to make distributions in the future.

Our distribution policy is subject to change.

Our board of directors determines an appropriate common stock distribution based upon numerous factors, including our targeted distribution rate, REIT qualification requirements, the amount of cash flow generated from operations, availability of existing cash balances, borrowing capacity under existing credit agreements, access to cash in the capital markets and other financing sources, our view of our ability to realize gains in the future through appreciation in the value of our assets, general economic conditions and economic conditions that more specifically impact our business or prospects. Future distribution levels are subject to adjustment based upon any one or more of the risk factors set forth in this Annual Report on Form 10-K, as well as other factors that our board of directors may, from time-to-time, deem relevant to consider when determining an appropriate common stock distribution.

Our ability to make distributions is limited by the requirements of Maryland law.

Our ability to make distributions on our common stock is limited by the laws of Maryland. Under applicable Maryland law, a Maryland corporation may not make a distribution if, after giving effect to the distribution, the corporation would not be able to pay its liabilities as the liabilities become due in the usual course of business, or generally if the corporation's total assets would be less than the sum of its total liabilities plus the amount that would be needed if the corporation were dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of the stockholders whose preferential rights are superior to those receiving the distribution. Accordingly, we may not make a distribution on our common stock if, after giving effect to the distribution, we would not be able to pay our liabilities as they become due in the usual course of business or generally if our total

assets would be less than the sum of our total liabilities plus the amount that would be needed to satisfy the preferential rights upon dissolution of the holders of shares of any class or series of preferred stock then outstanding, if any, with preferences senior to those of our common stock.

We may change our targeted investments and investment guidelines without stockholder consent.

Our board of directors may change our targeted investments and investment guidelines at any time without the consent of stockholders, which could result in our making investments that are different from, and possibly riskier than the investments described in this Annual Report on Form 10-K. A change in our targeted investments or investment guidelines may increase our exposure to interest rate risk, default risk and real estate market fluctuations, all of which could adversely affect the value of our common stock and our ability to make distributions to stockholders.

Stockholders have limited control over changes in our policies and operations, which increases the uncertainty and risks they face as stockholders.

Our board of directors determines our major policies, including our policies regarding growth, REIT qualification and distributions. Our board of directors may amend or revise these and other policies without a vote of the stockholders. We may change our investment policies without stockholder notice or consent, which could result in investments that are different than, or in different proportion than, those described in this Annual Report on Form 10-K. Under the Maryland General Corporation Law, or MGCL, and our charter, stockholders have a right to vote only on limited matters. Our board of directors' broad discretion in setting policies and stockholders' inability to exert control over those policies increases the uncertainty and risks stockholders face. Under MGCL, and our charter, stockholders have a right to vote only on:

- the election or removal of directors;
- amendment of our charter, except that our board of directors may amend our charter without stockholder approval to (i) increase or decrease the aggregate number of our shares of stock of any class or series that we have the authority to issue; (ii) effect certain reverse stock splits; and (iii) change our name or the name or other designation or the par value of any class or series of our stock and the aggregate par value of our stock;
- our liquidation or dissolution;
- certain reorganizations of our company, as provided in our charter; and
- certain mergers, consolidations or sales or other dispositions of all or substantially all our assets, as provided in our charter.

Pursuant to Maryland law, all matters other than the election or removal of a director must be declared advisable by our board of directors prior to a stockholder vote. Our board of directors' broad discretion in setting policies and stockholders' inability to exert control over those policies increases the uncertainty and risks stockholders face.

Our board of directors' broad discretion in setting policies and stockholders' inability to exert control over those policies increases the uncertainty and risks stockholders face.

If stockholders fail to meet the fiduciary and other standards under the Employment Retirement Income Security Act, or ERISA, or the Internal Revenue Code as a result of an investment in our stock, stockholders could be subject to criminal and civil penalties.

Special considerations apply to the purchase of shares by employee benefit plans subject to the fiduciary rules of Title I of ERISA, including pension or profit sharing plans and entities that hold assets of such plans, or ERISA Plans, and plans and accounts that are not subject to ERISA, but are subject to the prohibited transaction rules of Section 4975 of the Internal Revenue Code, including IRAs, Keogh Plans, and medical savings accounts (collectively, we refer to ERISA Plans and plans subject to Section 4975 of the Internal Revenue Code as "Benefit Plans"). If stockholders are investing the assets of any Benefit Plan, stockholders should consult with their own counsel and satisfy themselves that:

- their investment is consistent with the fiduciary obligations under ERISA and the Internal Revenue Code or any other applicable governing authority in the case of a government plan;
- their investment is made in accordance with the documents and instruments governing the Benefit Plan, including the Benefit Plan's investment policy;
- their investment satisfies the prudence and diversification requirements of Sections 404(a)(1)(B) and 404(a)(1)(C) of ERISA, if applicable and other applicable provisions of ERISA and the Internal Revenue Code;
- their investment will not impair the liquidity of the Benefit Plan;

- their investment will not unintentionally produce unrelated business taxable income for the Benefit Plan;
- stockholders will be able to value the assets of the Benefit Plan annually in accordance with the applicable provisions of ERISA and the Internal Revenue Code; and
- their investment will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Internal Revenue Code.

Fiduciaries may be held personally liable under ERISA for losses as a result of failure to satisfy the fiduciary standards of conduct and other applicable requirements of ERISA. In addition, if an investment in our shares constitutes a non-exempt prohibited transaction under ERISA or the Internal Revenue Code, the fiduciary of the Benefit Plan who authorized or directed the investment may be subject to imposition of excise taxes with respect to the amount invested and an IRA investment in our shares may lose its tax-exempt status.

Governmental plans, church plans and foreign plans that are not subject to ERISA or the prohibited transaction rules of the Internal Revenue Code, may be subject to similar restrictions under other laws. A plan fiduciary making an investment in our shares on behalf of such a plan should satisfy themselves that an investment in our shares satisfies both applicable law and is permitted by the governing plan documents.

We expect that our common stock qualifies as publicly offered securities such that investments in shares of our common stock will not result in our assets being deemed to constitute "plan assets" of any Benefit Plan investor. If, however, we were deemed to hold "plan assets" of Benefit Plan investors: (i) ERISA's fiduciary standards may apply to us and might materially affect our operations, and (ii) any transaction with us could be deemed a transaction with each Benefit Plan investor and may cause transactions into which we might enter in the ordinary course of business to constitute prohibited transactions under ERISA and/or Section 4975 of the Internal Revenue Code.

Stockholders' interests in us will be diluted if we issue additional shares, which could reduce the overall value of stockholders' investment.

Stockholders do not have preemptive rights to any shares we issue in the future. Our charter authorizes us to issue a total of 450.0 million shares of capital stock, of which 400.0 million shares are classified as common stock and 50.0 million shares are classified as preferred stock. Our board of directors may amend our charter from time to time to increase or decrease the number of authorized shares of capital stock or the number of shares of stock of any class or series that we have authority to issue without stockholder approval. Our board of directors may elect to: (i) sell additional shares in a future public offering; (ii) issue equity interests in private offerings; (iii) issue shares to our Advisor, or its successors or assigns, in payment of an outstanding fee obligation; (iv) issue shares of our common stock to sellers of assets we acquire in connection with an exchange of limited partnership interests of our operating partnership; or (v) issue shares of our common stock to pay distributions to existing stockholders. To the extent we issue additional equity interests, stockholders' percentage ownership interest in us will be diluted. In addition, depending upon the terms and pricing of any additional offerings and the value of our investments, stockholders may also experience dilution in the book value and fair value of their shares.

Our charter permits our board of directors to issue stock with terms that may subordinate the rights of our common stockholders or discourage a third party from acquiring us in a manner that could result in a premium price to stockholders.

Our board of directors may classify or reclassify any unissued common stock or preferred stock into other classes or series of stock and establish the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms and conditions of redemption of any such stock. Thus, our board of directors could authorize the issuance of preferred stock with priority as to distributions and amounts payable upon liquidation over the rights of the holders of our common stock. Such preferred stock could also have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price to holders of our common stock. Our board of directors may determine to issue different classes of stock that have different fees and commissions from those being paid with respect to the shares sold in our Offering. Additionally, our board of directors may amend our charter from time to time to increase or decrease the aggregate number of authorized shares of stock or the number of authorized shares of any class or series of stock without stockholder approval.

Our umbrella partnership real estate investment trust, or UPREIT, structure may result in potential conflicts of interest with limited partners in our operating partnership whose interests may not be aligned with those of stockholders.

Limited partners in our operating partnership have the right to vote on certain amendments to the partnership agreement, as well as on certain other matters. Persons holding such voting rights may exercise them in a manner that conflicts with the interests of stockholders. As general partner of our operating partnership, we are obligated to act in a manner that is in the best interest of our operating partnership. Circumstances may arise in the future when the interests of limited partners in our operating partnership

may conflict with the interests of stockholders. These conflicts may be resolved in a manner stockholders do not believe are in their best interests.

In addition, NorthStar Healthcare Income OP Holdings, LLC, or the Special Unit Holder, is an affiliate of our Advisor and, as the special limited partner in our operating partnership may be entitled to: (i) certain cash distributions upon the disposition of certain of our operating partnership's assets; or (ii) a one-time payment in the form of cash or shares in connection with the redemption of the special units upon the occurrence of a listing of our shares on a national stock exchange or certain events that result in the termination or non-renewal of our advisory agreement. In addition, through our Sponsor's long-term partnership with Mr. Flaherty, Mr. Flaherty is entitled to receive one-third of any distributions received by the Special Unit Holder upon the disposition of certain of our operating partnership's assets. The Special Unit Holder will only become entitled to the compensation after stockholders have received, in the aggregate, cumulative distributions equal to their invested capital plus a 6.75% cumulative, non-compounded annual pre-tax return on such invested capital. This potential obligation to make substantial payments to the holder of the special units would reduce the overall return to stockholders to the extent such return exceeds 6.75%.

Stockholders are limited in their ability to sell their shares of our common stock pursuant to our share repurchase program, or our Share Repurchase Program. Stockholders may not be able to sell any of their shares of our common stock back to us, and if they do sell their shares, they may not receive the price they paid upon subscription.

Our Share Repurchase Program may provide stockholders with an opportunity to have their shares of common stock repurchased by us after stockholders have held them for one year. We anticipate that shares of our common stock may be repurchased on a quarterly basis. However, our Share Repurchase Program contains certain restrictions and limitations, including those relating to the number of shares of our common stock that we can repurchase at any given time and limiting the repurchase price. Specifically, we presently intend to limit the number of shares to be repurchased during any calendar year to no more than: (i) 5% of the weighted average of the number of shares of our common stock outstanding during the prior calendar year; and (ii) those that could be funded from the net proceeds from the sale of shares under our DRP in the prior calendar year plus such additional cash as may be reserved for that purpose by our board of directors. In addition, our board of directors reserves the right to reject any repurchase request for any reason or no reason or to amend 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 only take effect upon ten business days prior written notice. Therefore, stockholders may not have the opportunity to make a repurchase request prior to a potential termination of our Share Repurchase Program and stockholders may not be able to sell any of their shares of our common stock back to us pursuant to our Share Repurchase Program. Moreover, if stockholders do sell their shares of our common stock back to us pursuant to our Share Repurchase Program, they may not receive the same price they paid for any shares of our common stock being repurchased.

The actual value of shares that we repurchase under our Share Repurchase Program may be substantially less than what we pay.

The terms of our Share Repurchase Program generally require us to repurchase shares at a price equal to our most recently disclosed estimated value per share. The estimated value per share of our common stock is calculated as of a specific date and is expected to fluctuate over time in response to future events. However, we anticipate only determining an estimated value per share annually. In the event that the value of our shares decreases due to market or other conditions, the price at which we repurchase our shares pursuant to our Share Repurchase Program might reflect a premium to our net asset value. If the actual net asset value of our shares is less than the price paid for the shares to be repurchased, any repurchases made would be immediately dilutive to our remaining stockholders.

The current price for shares under our DRP may exceed the book value of our shares.

We are currently issuing shares in our DRP at a purchase price equal to the most recently disclosed estimated value per share of our common stock. The estimated value per share of our common stock is calculated as of a specific date and is expected to fluctuate over time in response to future events. However, we anticipate only determining an estimated value per share annually. In the event that the value of our shares increases due to market or other conditions, the price at which we sell shares in our DRP might reflect a premium to book value. If the actual book value of our shares is less than the price paid to purchase shares in our DRP, such purchases would be immediately dilutive for DRP participants.

Our board of directors determined an estimated value per share of $9.10 for our common stock as of June 30, 2016. You should not rely on the estimated value per share as being an accurate measure of the current value of shares of our common stock or in making an investment decision.

On December 7, 2016, our board of directors approved and established an estimated value per share of $9.10 for our common stock as of June 30, 2016. Our board of directors' objective in determining the estimated value per share was to arrive at a value, based on the most recent data available, that it believed was reasonable. However, the market for commercial real estate assets can fluctuate quickly and substantially and values are expected to change in the future and may decrease. Also, our board of

directors did not consider certain other factors, such as a liquidity discount. In accordance with our DRP and Share Repurchase Program, effective December 7, 2016, distributions may be reinvested in shares of our common stock pursuant to the DRP at a price of $9.10 per share and, subject to certain exceptions as more fully described in the Share Repurchase Program, the price paid for shares redeemed under the Share Repurchase Program will be $9.10 per share, each of which is equal to the estimated value per share.

As with any valuation methodology, the methodologies used to determine the estimated value per share are based upon a number of estimates and assumptions that may prove later to be inaccurate or incomplete. Further, different market participants using different assumptions and estimates could derive different estimated values. The estimated value per share may also not represent the price that the shares of our common stock would trade at on a national securities exchange, the amount realized in a sale, merger or liquidation or the amount a stockholder would realize in a private sale of shares.

The estimated value per share of our common stock was calculated as of a specific date and is expected to fluctuate over time in response to future events, including but not limited to, changes to commercial real estate values, particularly healthcare-related commercial real estate, changes in market interest rates for commercial real estate debt investments, changes in capitalization rates, rental and growth rates, changes in laws or regulations impacting the healthcare industry, demographic changes, returns on competing investments, changes in administrative expenses and other costs, the amount of distributions on our common stock, repurchases of our common stock, changes in the number of shares of our common stock outstanding, the proceeds obtained for any common stock transactions, local and national economic factors and the factors specified these risk factors. There is no assurance that the methodologies used to estimate value per share would be acceptable to the Financial Industry Regulatory Authority, Inc., or FINRA, or in compliance with ERISA guidelines with respect to their reporting requirements.

Payment of fees to our Advisor and its affiliates reduces cash available for investment and distribution and increases the risk that stockholders will not be able to recover the amount of their investment in our shares.

Our Advisor and its affiliates perform services for us in connection with the selection, acquisition, origination, management and administration of our investments. We pay them substantial fees for these services, which results in immediate dilution to the value of stockholders' investment and reduces the value of cash available for investment or distribution to stockholders. We may increase the compensation we pay to our Advisor subject to approval by our board of directors and other limitations in our charter, which would further dilute stockholders' investment and the amount of cash available for investment or distribution to stockholders.

Affiliates of our Advisor could also receive significant payments even without our reaching the investment-return thresholds should we seek to become self-managed. Due to the apparent preference of the public markets for self-managed companies, a decision to list our shares on a national securities exchange might well be preceded by a decision to become self-managed. Given our Advisor's familiarity with our assets and operations, we might prefer to become self-managed by acquiring entities affiliated with our Advisor. Such an internalization transaction could result in significant payments to affiliates of our Advisor irrespective of whether stockholders received the returns on which we have conditioned incentive compensation.

Therefore, these fees increase the risk that the amount available for distribution to common stockholders upon a liquidation of our portfolio would be less than the purchase price of the shares in our Offering. These substantial fees and other payments also increase the risk that stockholders will not be able to resell their shares at a profit, even if our shares are listed on a national securities exchange.

If we terminate our advisory agreement with our Advisor, we may be required to pay significant fees to an affiliate of our Sponsor, which will reduce cash available for distribution to stockholders.

Upon termination of our advisory agreement for any reason, including for cause, our Advisor will be paid all accrued and unpaid fees and expense reimbursements earned prior to the date of termination and the Special Unit Holder may be entitled to a one-time payment upon redemption of the special units (based on an appraisal or valuation of our portfolio) in the event that the Special Unit Holder would have been entitled to a subordinated distribution had the portfolio been liquidated on the termination date. If special units are redeemed pursuant to the termination of our advisory agreement, there may not be cash from the disposition of assets to make a redemption payment; therefore, we may need to use cash from operations, borrowings or other sources to make the payment, which will reduce cash available for distribution to stockholders.

No public trading market for our shares currently exists, and as a result, it will be difficult for stockholders to sell their shares and, if stockholders are able to sell their shares, stockholders will likely sell them at a substantial discount to the price paid for those shares.

Our charter does not require our board of directors to seek stockholder approval to liquidate our assets by a specified date, nor does our charter require us to list our shares for trading on a national securities exchange by a specified date or otherwise pursue a transaction to provide liquidity to stockholders. There is no public market for our shares and we currently have no plans to list our shares on a national securities exchange. Until our shares are listed, if ever, stockholders may not sell their shares unless the

buyer meets the applicable suitability and minimum purchase standards. In addition, our charter prohibits the ownership of more than 9.8% in value of the aggregate of the outstanding shares of our stock of any class or series or more than 9.8% in value or number of shares, whichever is more restrictive, of the aggregate of the outstanding shares of our common stock, unless exempted by our board of directors, which may inhibit large investors from purchasing stockholders' shares. We have adopted our Share Repurchase Program that may enable stockholders to sell their shares to us in limited circumstances. Share repurchases will be made at the sole discretion of our board of directors. In its sole discretion, our board of directors could amend, suspend or terminate our Share Repurchase Program upon ten-days prior written notice to stockholders except that changes in the number of shares that can be repurchased during any calendar year will only take effect upon ten-business days prior written notice. Further, our Share Repurchase Program includes numerous restrictions that would limit stockholders' ability to sell their shares. Therefore, it will be difficult for stockholders to sell their shares promptly or at all. If stockholders are able to sell their shares, stockholders would likely have to sell them at a substantial discount to the public Offering price paid for those shares. It is also likely that stockholders' shares would not be accepted as the primary collateral for a loan. Because of the illiquid nature of our shares, stockholders should purchase our shares only as a long-term investment and be prepared to hold them for an indefinite period of time.

Our ability to achieve our investment objectives and to pay distributions depends in substantial part upon the performance of our Advisor.

Our ability to achieve our investment objectives and to pay distributions depends in substantial part upon the performance of our Advisor in the origination and acquisition of our investments, including the determination of any financing arrangements. Stockholders must rely entirely on the management abilities of our Advisor and the oversight of our board of directors. Our Advisor and its affiliates receive fees in connection with transactions involving the origination, acquisition, management and sale of our investments regardless of their quality or performance or the services provided. As a result, our Advisor may be incentivized to allocate investments that have a greater cost to increase the amount of fees payable to it.

We and our Advisor have adopted an investment allocation policy with the intent of eliminating the impact of any conflict that our Advisor or its affiliates' investment professionals might encounter in allocating investment opportunities among us, our Sponsor and any other Managed Company, however, there is no assurance that the investment allocation policy will continue or successfully eliminate the impact of any such conflicts. Further, following the mergers of our Sponsor with Colony and NorthStar Realty, our Sponsor became an internally-managed REIT and, as a result, may compete with us for certain real estate debt investments. In addition, we may more be likely to co-invest in any such opportunities with our Sponsor. If our Advisor performs poorly and as a result is unable to originate and acquire our investments successfully, we may be unable to achieve our investment objectives or to pay distributions to stockholders at presently contemplated levels, if at all.

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

Our organizational documents permit us to pay distributions from any source, including Offering proceeds, borrowings, our Advisor's agreement to defer, reduce or waive fees (or accept, in lieu of cash, shares of our common stock) or sales of assets or we may make distributions in the form of taxable stock dividends. We have not established a limit on the amount of proceeds we may use to fund distributions. We have funded our cash distributions paid to date using net proceeds from our Offering and we may do so in the future to the extent such proceeds are available and have not been fully invested. Until the proceeds from our Offering are fully invested and otherwise during the course of our existence, we may not generate sufficient cash flow from operations to fund distributions. During our Offering, pursuant to a distribution support agreement, in certain circumstances where our cash distributions exceed our MFFO, NorthStar Realty agreed to purchase up to $10.0 million of shares of our common stock at $9.00 per share during the Initial Offering and at $9.18 per share during the Follow-on Offering (which includes the $2.0 million of shares NorthStar Realty purchased to satisfy the minimum offering amount) to provide additional cash to support distributions to stockholders and has, in fact, purchased 588,116 shares of our common stock as of December 31, 2016. The sale of these shares resulted in the dilution of the ownership interests of our public stockholders. Our distribution support agreement expired in January 2016. For the year ended December 31, 2016, we declared distributions of $123.1 million compared to cash provided by operating activities of $4.0 million with $102.7 million, or 83.4% of the distributions declared during this period were paid using proceeds from our Offering. For the year ended December 31, 2015, we declared distributions of $88.3 million compared to cash used in operations of $8.6 million with $88.3 million, or 100.0% of the distributions declared during this period were paid using proceeds from our Offering, including the purchase of additional shares by NorthStar Realty.

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

Because we are dependent upon our Advisor and its affiliates to conduct our operations, any adverse changes in the financial health of these entities or our relationship with them could hinder our operating performance and the return on stockholders' investment.

We are dependent on our Advisor and its affiliates to manage our operations and our portfolio. Our Advisor and its affiliates depend upon the fees and other compensation or reimbursement of costs that they receive from us and the other Managed Companies in connection with the acquisition, origination, management and sale of assets to conduct their operations. Any adverse changes in the financial condition of our Advisor or its affiliates could hinder their ability to successfully support our business and growth, which could have a material adverse effect on our financial condition and results of operations.

Our rights and the rights of stockholders to recover claims against our independent directors are limited, which could reduce stockholders' and our recovery against them if they negligently cause us to incur losses.

Maryland law provides that a director has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Our charter generally provides that: (i) no director shall be liable to us or stockholders for monetary damages (provided that such director satisfies certain applicable criteria); (ii) we will indemnify non-independent directors for losses unless they are negligent or engage in misconduct; and (iii) we will indemnify independent directors for losses unless they are grossly negligent or engage in willful misconduct. As a result, stockholders and we may have more limited rights against our independent directors than might otherwise exist under common law, which could reduce stockholders' and our recovery from these persons if they act in a negligent manner. In addition, we may be obligated to fund the defense costs incurred by our independent directors (as well as by our other directors, officers, employees (if we ever have employees) and agents) in some cases, which would decrease the cash otherwise available for distribution to stockholders.

If we do not successfully implement a liquidity transaction, stockholders may have to hold their investments for an indefinite period.

Our charter does not require our board of directors to pursue a transaction providing liquidity to stockholders. If our board of directors determines to pursue a liquidity transaction, we would be under no obligation to conclude the process within a set time. If we adopt a plan of liquidation, the timing of the sale of assets will depend on real estate and financial markets, economic conditions in areas in which our investments are located and federal income tax effects on stockholders that may prevail in the future. We cannot guarantee that we will be able to liquidate all of our assets on favorable terms, if at all. In addition, we are not restricted from effecting a liquidity transaction with a Managed Company, which may result in certain conflicts of interest. After we adopt a plan of liquidation, we would likely remain in existence until all our investments are liquidated. If we do not pursue a liquidity transaction or delay such a transaction due to market conditions, our common stock may continue to be illiquid and stockholders may, for an indefinite period of time, be unable to convert stockholders' shares to cash easily, if at all, and could suffer losses on their investment in our shares.

If we internalize our management functions, stockholders' interests in us could be diluted and we could incur other significant costs associated with being self-managed.

Our board of directors may decide in the future to internalize our management functions. If we do so, we may elect to negotiate to acquire our Advisor's assets and/or to directly employ the personnel our Advisor or its affiliates use to perform services for us. Pursuant to our advisory agreement, we may not pay consideration to acquire our Advisor unless all of the consideration is payable in shares of our common stock and held in escrow by a third party and not released to our Advisor (or an affiliate thereof) until certain conditions are met. The payment of such consideration could result in dilution of the interests of stockholders and could reduce the net income and MFFO attributable to our common stock.

Additionally, while we would no longer bear the costs of the various fees and expenses we expect to pay to our Advisor under our advisory agreement, our additional direct expenses would include general and administrative costs, including certain legal, accounting and other expenses related to corporate governance, SEC reporting and compliance matters that are borne by our Advisor. We would also be required to employ personnel and would be subject to potential liabilities commonly faced by employers, such as workers disability and compensation claims, potential labor disputes and other employee-related liabilities and grievances, as well as incur the compensation and benefits costs of our officers and other employees and consultants that are paid by our Advisor or its affiliates. We may issue equity awards to officers, employees and consultants, which awards would decrease net income and MFFO and may further dilute stockholders' investments. We cannot reasonably estimate the amount of fees to our Advisor we would save or the costs we would incur if we became self-managed. If the expenses we assume as a result of an internalization are higher than the expenses we avoid paying to our Advisor, our net income and MFFO would be lower as a result of the internalization than it otherwise would have been, potentially decreasing the amount of cash available to distribute to stockholders and the value of our shares.

Internalization transactions involving the acquisition of advisors affiliated with entity sponsors have also, in some cases, been the subject of litigation. We could be forced to spend significant amounts of money defending claims which would reduce the amount of funds available for us to invest and cash available to pay distributions.

If we internalize our management functions, we could have difficulty integrating these functions as a stand-alone entity. Currently, our Advisor and its affiliates perform asset management and general and administrative functions, including accounting and financial reporting, for multiple entities. These personnel have substantial know-how and experience which provides us with economies of scale. We may fail to properly identify the appropriate mix of personnel and capital needs to operate as a stand-alone entity. Certain key employees may not become employees of our Advisor but may instead remain employees of our Sponsor or its affiliates. An inability to manage an internalization transaction effectively could thus result in our incurring excess costs and suffering deficiencies in our disclosure controls and procedures or our internal control over financial reporting. Such deficiencies could cause us to incur additional costs and our management's attention could be diverted from most effectively managing our investments.

We depend on third-party contractors and vendors and our results of operations could suffer if our third-party contractors and vendors fail to perform or if we fail to manage them properly.

We use third-party contractors and vendors including, but not limited to, our external legal counsel, auditors, research firms, property managers, appraisers, insurance brokers, environmental engineering consultants, construction consultants, financial printers, proxy solicitation firms and transfer agent. If our third-party contractors and vendors fail to successfully perform the tasks for which they have been engaged to complete, either as a result of their own negligence or fault, or due to our failure to properly supervise any such contractors or vendors, we could incur liabilities as a result and our results of operations and financial condition could be negatively impacted.

Risks Related to Conflicts of Interest

The fees we pay to our Advisor and its affiliates and in connection with the acquisition, origination and management of our investments were not determined on an arm's length basis; therefore, we do not have the benefit of arm's length negotiations of the type normally conducted between unrelated parties.

The fees to be paid to our Advisor and other affiliates for services they provide for us were not determined on an arm's length basis. As a result, the fees have been determined without the benefit of arm's length negotiations of the type normally conducted between unrelated parties and may be in excess of amounts that we would otherwise pay to third parties for such services.

Our organizational documents do not prevent us from buying assets from or selling assets to the Sponsor or another Managed Company or from paying our Advisor an acquisition fee or a disposition fee related to such a purchase or sale.

If we buy an asset from or sell an asset to the Sponsor or another Managed Company, our organizational documents would not prohibit us from paying our Advisor an acquisition fee or a disposition fee, as applicable. As a result, our Advisor may not have an incentive to pursue an independent third-party buyer, rather than us or the Sponsor or one of the other Managed Companies. Our charter does not require that such transaction be the most favorable transaction available or provide any other restrictions on our Advisor recommending a purchase or sale of assets among the Sponsor or the Managed Companies. As a result, our Advisor may earn an acquisition or disposition fee despite the transaction not being the most favorable to us or stockholders.

Our executive officers and our Advisor 's and its affiliates' key professionals face conflicts of interest caused by their compensation arrangements with us, which could result in actions that are not in the long-term best interests of our company.

Our executive officers and the key investment professionals relied upon by our Advisor are also officers, directors and managers of certain of the Managed Companies. Mr. Flaherty is our Sponsor's joint venture partner and serves as a member of our Advisor's Investment Committee for healthcare real estate investments. In addition, Mr. Flaherty has an interest in AHI, which provides us with certain management services in connection with our healthcare assets. Our Advisor and its affiliates and Mr. Flaherty, directly or indirectly, receive substantial fees from us. These fees could influence the advice given to us by the key personnel of our Advisor and its affiliates, including our Advisor's Investment Committee. Among other matters, these compensation arrangements could affect their judgment with respect to:

- the continuation, renewal or enforcement of our agreements with our Advisor and its affiliates, including our advisory agreement;
- acquisitions and originations of investments, which entitle our Advisor to acquisition fees and asset management fees and, in the case of acquisitions of investments from the other Managed Companies, might entitle affiliates of our Advisor to disposition fees in connection with services for the seller;
- sales of investments, which entitle our Advisor to disposition fees;

- borrowings to originate or acquire debt or healthcare-related securities investments, which borrowings will increase the acquisition fees and asset management fees payable to our Advisor;
- whether and when we seek to list our common stock on a national securities exchange, which listing could entitle the Special Unit Holder to have its interest in our operating partnership redeemed;
- whether we seek approval to internalize our management, which may entail acquiring assets from our Sponsor (such as office space, furnishings and technology costs) and employing our Advisor's or its affiliates' professionals performing services for us for consideration that would be negotiated at that time and may result in these investment professionals receiving more compensation from us than they currently receive from our Advisor or its affiliates; and
- whether and when we seek to sell our company or its assets, which would entitle the Special Unit Holder to a subordinated distribution.

The fees our Advisor receives in connection with transactions involving the acquisition or origination of an asset are based on the cost of the investment, and not based on the quality of the investment or the quality of the services rendered to us. In addition, the Special Unit Holder, an affiliate of our Advisor, may be entitled to certain distributions subject to our stockholders receiving a 6.75% cumulative, non-compounded annual pre-tax return. This may influence our Advisor and its affiliates' key professionals to recommend riskier transactions to us.

In addition to the management fees we pay to our Advisor, we reimburse our Advisor for costs and expenses incurred on our behalf, including indirect personnel and employment costs of our Advisor and its affiliates and these costs and expenses may be substantial.

We pay our Advisor substantial fees for the services it provides to us and we also have an obligation to reimburse our Advisor for costs and expenses it incurs and pays on our behalf. Subject to certain limitations and exceptions, we reimburse our Advisor for both direct expenses as well as indirect costs, including personnel and employment costs of our Advisor, and its affiliates, which may include certain executive officers of our Advisor and its affiliates, as well as rental and occupancy, technology, office supplies, travel and entertainment and other general and administrative costs and expenses. The costs and expenses our Advisor incurs on our behalf, including the compensatory costs incurred by our Advisor and its affiliates, can be substantial. There are conflicts of interest that arise when our Advisor makes allocation determinations. For the year ended December 31, 2016, our Advisor allocated $24.1 million in costs and expenses to us. Our Advisor could allocate costs and expenses to us in excess of what we anticipate and such costs and expenses could have an adverse effect on our financial performance and ability to make cash distributions to our stockholders.

Professionals acting on behalf of our Advisor face competing demands relating to their time and this may cause our operations and stockholders' investment to suffer.

Professionals acting on behalf of our Advisor that perform services for us, including Messrs. Barrack, Hamamoto, Saltzman, Gilbert, Tangen, Sanders, Gatenio, Jeanneault, Saracino and Bath and Ms. Harrington are also executive officers or employees of our Sponsor and/or certain other Managed Companies. As a result of their interests in other Colony NorthStar entities and the fact that they engage in and they continue to engage in other business activities on behalf of themselves and others, these individuals face conflicts of interest in allocating their time among us, our Advisor and its affiliates, the other Managed Companies and other business activities in which they are involved. These conflicts of interest could result in less effective execution of our business plan as well as declines in the returns on our investments and the value of stockholders' investment.

Our executive officers and our Advisor's and its affiliates' key investment professionals who perform services for us face conflicts of interest related to their positions and interests in our Advisor and its affiliates which could hinder our ability to implement our business strategy and to generate returns to stockholders.

Our executive officers and the key investment professionals of our Advisor and its affiliates, including members of our Advisor's Investment Committee, who perform services for us may also be executive officers, directors and managers of our Advisor and its affiliates. In addition, Mr. Flaherty is our Sponsor's joint venture partner and serves as a member of our Advisor's Investment Committee for healthcare real estate investments. As a result, they owe duties to each of these entities, their members and limited partners and investors, which duties may from time-to-time conflict with the fiduciary duties that they owe to us and stockholders. In addition, our Sponsor may grant equity interests in our Advisor and the Special Unit Holder to certain management personnel performing services for our Advisor. The loyalties of these individuals to other entities and investors could result in action or inaction that is detrimental to our business, which could harm the implementation of our business strategy and our investment opportunities. If we do not successfully implement our business strategy, we may be unable to generate the cash needed to make distributions to stockholders and to maintain or increase the value of our assets.

Our Advisor faces conflicts of interest relating to performing services on our behalf and such conflicts may not be resolved in our favor, meaning that we could invest in less attractive assets, which could limit our ability to make distributions and reduce stockholders' overall investment.

We rely on our Advisor's and its affiliates' investment professionals to identify suitable investment opportunities for our company as well as the other Managed Companies. Our investment strategy may be similar to that of, and may overlap with, the investment strategies of the other Managed Companies, as well as other companies, funds or vehicles that may be co-sponsored, co-branded and co-founded by, or subject to a strategic relationship between, our Sponsor or one of its affiliates, on the one hand, and a strategic or joint venture partner of our sponsor, or a partner, on the other, which we refer to collectively as the Strategic Vehicles. Therefore, many investment opportunities sourced by our Advisor or its affiliates or one or more of the partners that are suitable for us may also be suitable for other Managed Companies and/or Strategic Vehicles.

Our Advisor and its affiliates may allocate investment opportunities sourced by a partner directly to the associated Strategic Vehicle or, as applicable, among multiple associated Strategic Vehicles on a rotating basis, which we refer to as a Special Allocation. For all investment opportunities other than Special Allocations, our Advisor and its affiliates will allocate, in their sole discretion, each investment opportunity to one or more of the Managed Companies, including us, and, as applicable, Strategic Vehicles or our Sponsor, for which such investment opportunity is most suitable. When determining the entity for which an investment opportunity would be the most suitable, the factors that our Advisor and its affiliates may consider include, without limitation, the following:

- investment objectives, strategy and criteria;
- cash requirements;
- effect of the investment on the diversification of the portfolio, including by geography, size of investment, type of investment and risk of investment;
- leverage policy and the availability of financing for the investment by each entity;
- anticipated cash flow of the asset to be acquired;
- income tax effects of the purchase;
- the size of the investment;
- the amount of funds available;
- cost of capital;
- risk return profiles;
- targeted distribution rates;
- anticipated future pipeline of suitable investments;
- the expected holding period of the investment and the remaining term of the Managed Company, if applicable;
- affiliate and/or related party considerations; and
- whether a Strategic Vehicle has received a Special Allocation.

A dedicated mandate may cause certain Managed Companies to have priority over other Managed Companies (including us) with respect to specific investment opportunities. A priority right may result in fewer of such investment opportunities being made available to us to the extent they are within our investment strategy.

If, after consideration of the relevant factors, our Advisor and its affiliates determine that an investment is equally suitable for more than one company, the investment will be allocated on a rotating basis. If, after an investment has been allocated to a particular company, including us, a subsequent event or development, such as delays in structuring or closing on the investment, makes it, in the opinion of our Advisor and its affiliates, more appropriate for a different entity to fund the investment, our Advisor and its affiliates may determine to place the investment with the more appropriate entity while still giving credit to the original allocation. In certain situations, our Advisor and its affiliates may determine to allow more than one Managed Company, including us, and/or a Strategic Vehicle to co-invest in a particular investment. In discharging their duties under the investment allocation, our Advisor and its affiliates endeavor to allocate all investment opportunities among the Managed Companies, the Strategic Vehicles and our Sponsor in a manner that is fair and equitable over time.

While these are the current procedures for allocating investment opportunities, our Sponsor or its affiliates may sponsor or co-sponsor, co-brand or co-found additional investment vehicles in the future and, in connection with the creation of such investment vehicles or otherwise, our Advisor and its affiliates may revise the investment allocation policy. The result of such a revision to the investment allocation policy may, among other things, be to increase the number of parties who have the right to participate in investment opportunities sourced by our Advisor and its affiliates and/or its partners, thereby reducing the number of investment opportunities available to us. Changes to the investment allocation policy that could adversely impact the allocation of investment opportunities to us in any material respect may be proposed by our Advisor and must be approved by our board of directors.

The decision of how any potential investment should be allocated among us and other Managed Companies for which such investment may be most suitable may, in many cases, be a matter of highly subjective judgment which will be made by our Advisor and its affiliates in their sole discretion. Stockholders may not agree with the determination and such determination could have an adverse effect on our investment strategy. Our right to participate in the investment allocation process described above will terminate once we are no longer advised by our Advisor or its affiliates.

In addition, subject to compliance with Investment Advisers Act of 1940 rules, we may enter into principal transactions with our Advisor or its affiliates or cross-transactions with other Managed Companies or Strategic Vehicles. For certain cross-transactions, our Advisor may receive a fee from us or another Managed Company and conflicts may exist. There is no guarantee that any such transactions will be favorable to us. Because our interests and the interests of Sponsor and our Advisor may not be aligned, we may face conflicts of interest that result in action or inaction that is detrimental to us.

Further, there are conflicts of interest that arise when our Advisor makes expense allocation determinations, as well as in connection with any fees payable between us and our Advisor. These fees and allocation determinations are sometimes based on estimates or judgments, which may not be correct and could result in our Advisor's failure to allocate certain fees and costs appropriately.

Our ability to operate our business successfully would be harmed if key personnel terminate their employment with our Sponsor.

Our future success depends, to a significant extent, upon the continued services of key personnel of our Sponsor, such as Messrs. Barrack, Hamamoto, Saltzman, Hedstrom, Traenkle, Gilbert, Tangen, Sanders, Gatenio, Jeanneault, Saracino and Bath and Ms. Harrington. We do not have employment agreements with any of our executive officers. If the management agreement with our Advisor were to be terminated, we may lose the services of our executive officers and other of our Sponsor's investment professionals acting on our behalf. Furthermore, if any of our executive officers ceased to be employed by our Sponsor, such individual may also no longer serve as one of our executive officers. Any change in our Sponsor's relationship with any of our executive officers may be disruptive to our business and hinder our ability to implement our business strategy. For instance, the extent and nature of the experience of our executive officers and the nature of the relationships they have developed with real estate professionals and financial institutions are critical to the success of our business. We cannot assure stockholders of their continued employment with our Sponsor or its ability to employ them in the future. The loss of services of certain of our executive officers could harm our business and our prospects.

We may not realize the anticipated benefits of our Sponsor's strategic partnerships and joint ventures.

Our Sponsor may enter into strategic partnerships and joint ventures. For instance, in January 2014, our Sponsor, which was a subsidiary of NorthStar Realty until the NSAM Spin-off, entered into a long-term partnership with James F. Flaherty III, former chairman and chief executive officer of HCP, Inc. (NYSE: HCP), focused on building a preeminent healthcare real estate business. In connection with the partnership, Mr. Flaherty oversees and seeks to grow the healthcare real estate portfolios of companies managed by our Sponsor and its affiliates, including NorthStar Realty and us. Our Sponsor and the Managed Companies, including us, may not realize the expected benefits of this partnership with Mr. Flaherty due to, among other things, the economic and overall conditions of the healthcare real estate industry, Mr. Flaherty's ability to source new healthcare real estate investments with the returns we anticipate or at all or our Sponsor may become involved in disputes with Mr. Flaherty regarding the joint venture's investments. In addition, either Mr. Flaherty or we could determine to end the strategic partnership at any time. Furthermore, a portion of the incentive fees to which Mr. Flaherty is entitled is based on our and NorthStar Realty's existing healthcare real estate investments and is not contingent upon Mr. Flaherty's performance regarding new healthcare real estate investments sourced by him. Such incentive fees may be substantial.

In addition, in December 2014, our Sponsor acquired an approximate 43% interest in AHI. Our Sponsor may not be able to realize the anticipated benefits of this joint venture. It may also subject us to additional risks and uncertainties, as we may be dependent upon, and subject to, liability, losses or reputational damage relating to systems, controls and personnel that are not under our Sponsor's control. Where our Sponsor does not have a controlling interest, such as in AHI, it may not be able to take actions which are in our best interests due to a lack of full control. Furthermore, as AHI provides services to us, certain conflicts of interest will exist. Moreover, disagreements or disputes between our Sponsor and AHI could result in litigation, which could potentially distract our Sponsor or AHI from our business.

Certain of our Sponsor's strategic partners or joint ventures may also have overlapping interests. For instance, Mr. Flaherty also acquired an interest in AHI. Any such overlapping interests may exacerbate potential conflicts or disputes.

Risks Related to Regulatory Matters and Our REIT Tax Status

We are subject to substantial regulation, numerous contractual obligations and extensive internal policies and failure to comply with these matters could have a material adverse effect on our business, financial condition and results of operations.

We and our subsidiaries are subject to substantial regulation, numerous contractual obligations and extensive internal policies. Given our organizational structure, we are subject to regulation by the SEC, FINRA, IRS, and other federal, state and local governmental bodies and agencies and state blue sky laws. These regulations are extensive, complex and require substantial management time and attention, particularly healthcare laws and regulations governing the operation of our healthcare properties. If we fail to comply with any of the regulations that apply to our business, we could be subjected to extensive investigations as well as substantial penalties and our business and operations could be materially adversely affected. Our lack of compliance with applicable law could result in, among other penalties, our ineligibility to contract with and receive revenue from the federal government or other governmental authorities and agencies. We also expect to have numerous contractual obligations that we must adhere to on a continuous basis to operate our business, the default of which could have a material adverse effect on our business and financial condition. Our internal policies may not be effective in all regards and, further, if we fail to comply with our internal policies, we could be subjected to additional risk and liability.

The direct or indirect effects of the Dodd-Frank Wall Street Reform Act, or the Dodd-Frank Act, enacted in July 2010 for the purpose of stabilizing or reforming the financial markets, may have an adverse effect on our interest rate hedging activities.

In July 2010, the Dodd-Frank Act became law in the United States. Title VII of the Dodd-Frank Act provided for significantly increased regulation of and restrictions on derivatives markets and transactions that could affect our interest rate hedging or other risk management activities, including: (i) regulatory reporting for swaps; (ii) mandated clearing through central counterparties and execution through regulated exchanges or electronic facilities for certain swaps; and (iii) margin and collateral requirements. While the U.S. Commodity Futures Trading Commission, or CFTC, has finalized many of these Dodd-Frank Act requirements, many other requirements have not yet taken effect. Interest rate swaps are subject to a mandatory clearing order, which could significantly increase margin requirements, which may undermine the benefit of such hedging because of the increased costs. Additionally, it is currently unknown what impact, if any, the new U.S. Administration will have on the existing rules and regulations of the CFTC or on the Dodd-Frank Act. An inability to efficiently hedge our interest rate risk may have an adverse effect on our business.

Maintenance of our Investment Company Act exemption imposes limits on our operations.

Neither we, nor our operating partnership, nor any of the subsidiaries of our operating partnership intend to register as an investment company under the Investment Company Act. We intend to make investments and conduct our operations so that we are not required to register as an investment company. If we were obligated to register as an investment company, we would have to comply with a variety of substantive requirements under the Investment Company Act that impose, among other things:

- limitations on capital structure;
- restrictions on specified investments;
- prohibitions on transactions with affiliates; and
- compliance with reporting, recordkeeping, voting, proxy disclosure and other rules and regulations that would significantly increase our operating expenses.

Section 3(a)(1)(A) of the Investment Company Act defines an investment company as any issuer that is or holds itself out as being engaged primarily in the business of investing, reinvesting or trading in securities. Section 3(a)(1)(C) of the Investment Company Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40% of the value of the issuer's total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis, which we refer to as the 40% test. Excluded from the term "investment securities," among other things, are U.S. government securities and securities issued by majority-owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company set forth in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act. Moreover, we take the position that general partnership interests in joint ventures structured as general partnerships are not considered securities at all and thus are not investment securities.

Because we are a holding company that conducts its businesses through subsidiaries, the securities issued by our subsidiaries that rely on the exception from the definition of "investment company" in Section 3(c)(1) or 3(c)(7) of the Investment Company Act,

together with any other investment securities we may own directly, may not have a combined value in excess of 40% of the value of our total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. This requirement limits the types of businesses in which we may engage through these subsidiaries.

We must monitor our holdings and those of our operating partnership to ensure that they comply with the 40% test. Through our operating partnership's wholly owned or majority-owned subsidiaries, we and our operating partnership will be primarily engaged in the non-investment company businesses of these subsidiaries, namely the business of purchasing real estate properties or otherwise originating or acquiring mortgages and other interests in real estate.

Most of these subsidiaries will rely on the exclusion from the definition of an investment company under Section 3(c)(5)(C) of the Investment Company Act, which is available for entities "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." This exclusion generally requires that at least 55% of a subsidiary's portfolio must be qualifying real estate assets and at least 80% of its portfolio must be qualifying real estate assets and real estate-related assets (and no more than 20% can be miscellaneous assets). Qualification for exclusion from registration under the Investment Company Act will limit our ability to acquire or sell certain assets and also could restrict the time at which we may acquire or sell assets. For purposes of the exclusion provided by Section 3(c)(5)(C), we will classify our investments based in large measure on no-action letters issued by the SEC staff and other SEC interpretive guidance and, in the absence of SEC guidance, on our view of what constitutes a qualifying real estate asset and a real estate related asset. These no-action positions were issued in accordance with factual situations that may be substantially different from the factual situations we may face, and a number of these no-action positions were issued more than twenty years ago. In August 2011, the SEC issued a concept release in which it asked for comments on various aspects of Section 3(c)(5)(C), and, accordingly, the SEC or its staff may issue further guidance in the future. Future revisions to the Investment Company Act or further guidance from the SEC or its staff may force us to re-evaluate our portfolio and our investment strategy.

We may in the future organize special purpose subsidiaries of the operating partnership that will borrow under or participate in government sponsored incentive programs to the extent they exist. We expect that some of these subsidiaries will rely on Section 3(c)(7) for their Investment Company Act exemption and, therefore, our operating partnership's interest in each of these subsidiaries would constitute an "investment security" for purposes of determining whether the operating partnership passes the 40% test. Also, we may in the future organize one or more subsidiaries that seek to rely on the Investment Company Act exemption provided to certain structured financing vehicles by Rule 3a-7. Any such subsidiary would need to be structured to comply with any guidance that may be issued by the SEC staff on the restrictions contained in Rule 3a-7. In certain circumstances, compliance with Rule 3a-7 may require, among other things, that the indenture governing the subsidiary include limitations on the types of assets the subsidiary may sell or acquire out of the proceeds of assets that mature, are refinanced or otherwise sold, on the period of time during which such transactions may occur, and on the amount of transactions that may occur.

The loss of our Investment Company Act exemption could require us to register as an investment company or substantially change the way we conduct our business, either of which may have an adverse effect on us and the value of our common stock.

On August 31, 2011, the SEC published a concept release (Release No. 29778, File No. S7-34-11, *Companies Engaged in the Business of Acquiring Mortgages and Mortgage Related Instruments*), pursuant to which it is reviewing whether certain companies that invest in mortgage-backed securities and rely on the exclusion from registration under Section 3(c)(5)(C) of the Investment Company Act, such as us, should continue to be allowed to rely on such an exclusion from registration. If the SEC or its staff takes action with respect to this exclusion, these changes could mean that certain of our subsidiaries could no longer rely on the Section 3(c)(5)(C) exclusion, and would have to rely on Section 3(c)(1) or 3(c)(7), which would mean that our investment in those subsidiaries would be investment securities. This could result in our failure to maintain our exemption from registration as an investment company.

If we fail to maintain an exemption, exception or other exclusion from registration as an investment company, either because of SEC interpretational changes or otherwise, we could, among other things, be required either: (i) to substantially change the manner in which we conduct our operations to avoid being required to register as an investment company; or (ii) to register as an investment company, either of which could have an adverse effect on us and the value of our common stock. If we are required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with affiliated persons (as defined in the Investment Company Act), portfolio composition, including restrictions with respect to diversification and industry concentration and other matters.

Our Advisor is subject to extensive regulation, including as an investment adviser in the United States, which could adversely affect its ability to manage our business.

Certain of our Sponsor's affiliates, including our Advisor, are subject to regulation as investment advisers and/or fund managers by various regulatory authorities that are charged with protecting the interests of the Managed Companies, including us. Instances

of criminal activity and fraud by participants in the investment management industry and disclosures of trading and other abuses by participants in the financial services industry have led the U.S. government and regulators in foreign jurisdictions to consider increasing the rules and regulations governing, and oversight of, the financial system. This activity is expected to result in continued changes to the laws and regulations governing the investment management industry and more aggressive enforcement of the existing laws and regulations. Our Advisor could be subject to civil liability, criminal liability, or sanction, including revocation of its registration as an investment adviser in the United States, revocation of the licenses of its employees, censures, fines or temporary suspension or permanent bar from conducting business if it is found to have violated any of these laws or regulations. Any such liability or sanction could adversely affect its ability to manage our business.

Our Advisor must continually address conflicts between its interests and those of its managed companies, including us. In addition, the SEC and other regulators have increased their scrutiny of potential conflicts of interest. However, appropriately dealing with conflicts of interest is complex and difficult and if our Advisor fails, or appears to fail, to deal appropriately with conflicts of interest, it could face litigation or regulatory proceedings or penalties, any of which could adversely affect its ability to manage our business.

Certain provisions of Maryland law may limit the ability of a third party to acquire control of us.

Certain provisions of the MGCL may have the effect of inhibiting a third-party from acquiring us or of impeding a change of control under circumstances that otherwise could provide our common stockholders with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

- ***"business combination"*** provisions that, subject to limitations, prohibit certain business combinations between an "interested stockholder" (defined generally as any person who beneficially owns, directly or indirectly, 10% or more of the voting power of our outstanding shares of voting stock or an affiliate or associate of the corporation who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding stock of the corporation) or an affiliate of any interested stockholder and us for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter imposes two super-majority stockholder voting requirements on these combinations; and
- ***"control share"*** provisions that provide that holders of "control shares" of our company (defined as voting shares of stock that, if aggregated with all other shares of stock owned or controlled by the acquirer, would entitle the acquirer to exercise one of three increasing ranges of voting power in electing directors) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of issued and outstanding "control shares") have no voting rights except to the extent approved by stockholders by the affirmative vote of at least two-thirds of all of the votes entitled to be cast on the matter, excluding all interested shares.

Pursuant to the Maryland Business Combination Act, our board of directors has by resolution opted out of the business combination provisions. Our bylaws contain a provision exempting from the Maryland Control Share Acquisition Act any and all acquisitions by any person of shares of our stock. There can be no assurance that these resolutions or exemptions will not be amended or eliminated at any time in the future.

Our charter includes a provision that may discourage a person from launching a mini-tender offer for our shares.

Our charter provides that any tender offer made by a person, including any "mini-tender" offer, must comply with most provisions of Regulation 14D of the Exchange Act. A "mini-tender offer" is a public, open offer to all stockholders to buy their stock during a specified period of time that will result in the bidder owning less than 5% of the class of securities upon completion of the mini-tender offer process. Absent such a provision in our charter, mini-tender offers for shares of our common stock would not be subject to Regulation 14D of the Exchange Act. Tender offers, by contrast, result in the bidder owning more than 5% of the class of securities and are automatically subject to Regulation 14D of the Exchange Act. Pursuant to our charter, the offeror must provide our company notice of such tender offer at least ten business days before initiating the tender offer. If the offeror does not comply with these requirements, our company will have the right to repurchase the offeror's shares, including any shares acquired in the tender offer. In addition, the noncomplying offeror shall be responsible for all of our company's expenses in connection with that offeror's noncompliance and no stockholder may transfer any shares to such noncomplying offeror without first offering the shares to us at the tender offer price offered by such noncomplying offeror. This provision of our charter may discourage a person from initiating a mini-tender offer for our shares and prevent stockholders from receiving a premium price for their shares in such a transaction.

Our failure to continue to qualify as a REIT would subject us to federal income tax and reduce cash available for distribution to stockholders.

We elected to be taxed as a REIT under the Internal Revenue Code commencing with the taxable year ended December 31, 2013. We intend to continue to operate in a manner so as to continue to qualify as a REIT for federal income tax purposes. Qualification

as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which only a limited number of judicial and administrative interpretations exist. Even an inadvertent or technical mistake could jeopardize our REIT status. Our continued qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. Moreover, new tax legislation, administrative guidance or court decisions, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to continue to qualify as a REIT. If we fail to continue to qualify as a REIT in any taxable year, we would be subject to federal and applicable state and local income tax on our taxable income at corporate rates, in which case we might be required to borrow or liquidate some investments in order to pay the applicable tax. Losing our REIT status would reduce our net income available for investment or distribution to stockholders because of the additional tax liability. In addition, distributions to stockholders would no longer qualify for the dividends-paid deduction and we would no longer be required to make distributions. Furthermore, if we fail to qualify as a REIT in any taxable year for which we have elected to be taxed as a REIT, we would generally be unable to elect REIT status for the four taxable years following the year in which our REIT status is lost.

Complying with REIT requirements may force us to borrow funds to make distributions to stockholders or otherwise depend on external sources of capital to fund such distributions.

To continue to qualify as a REIT, we are required to distribute annually at least 90% of our taxable income, subject to certain adjustments, to stockholders. To the extent that we satisfy the distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, we may elect to retain and pay income tax on our net long-term capital gain. In that case, a stockholder would be taxed on its proportionate share of our undistributed long-term gain and would receive a credit or refund for its proportionate share of the tax we paid. A stockholder, including a tax-exempt or foreign stockholder, would have to file a federal income tax return to claim that credit or refund. Furthermore, we will be subject to a 4% nondeductible excise tax if the actual amount that we distribute to stockholders in a calendar year is less than a minimum amount specified under federal tax laws.

From time-to-time, we may generate taxable income greater than our net income (loss) for U.S. GAAP, due to among other things, amortization of capitalized purchase premiums, fair value adjustments and reserves. In addition, our taxable income may be greater than our cash flow available for distribution to stockholders as a result of, among other things, investments in assets that generate taxable income in advance of the corresponding cash flow from the assets (for instance, if a borrower defers the payment of interest in cash pursuant to a contractual right or otherwise).

If we do not have other funds available in the situations described in the preceding paragraphs, we could be required to borrow funds on unfavorable terms, sell investments at disadvantageous prices or find another alternative source of funds to make distributions sufficient to enable us to distribute enough of our taxable income to satisfy the REIT distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year. These alternatives could increase our costs or reduce our equity.

Because of the distribution requirement, it is unlikely that we will be able to fund all future capital needs, including capital needs in connection with investments, from cash retained from operations. As a result, to fund future capital needs, we likely will have to rely on third-party sources of capital, including both debt and equity financing, which may or may not be available on favorable terms or at all. Our access to third-party sources of capital will depend upon a number of factors, including our current and potential future earnings and cash distributions.

We could fail to continue to qualify as a REIT if the IRS successfully challenges our treatment of our mezzanine loans or repurchase agreements.

We intend to continue to operate in a manner so as to continue to qualify as a REIT for federal income tax purposes. However, qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which only a limited number of judicial and administrative interpretations exist. If the IRS disagrees with the application of these provisions to our assets or transactions, including assets we have owned and past transactions, our REIT qualification could be jeopardized. For instance, IRS Revenue Procedure 2003-65 provides a safe harbor pursuant to which a mezzanine loan, if it meets each of the requirements contained therein, will be treated by the IRS as a real estate asset for purposes of the REIT asset tests and interest derived from it will be treated as qualifying mortgage interest for purposes of the 75% income test. Although Revenue Procedure 2003-65 provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law. Our mezzanine loans will typically not meet all of the requirements for reliance on this safe harbor. We have invested, and will continue to invest, in mezzanine loans in a manner that we believe will enable us to continue to satisfy the REIT gross income and asset tests.

In addition, we may enter into sale and repurchase agreements under which we may nominally sell certain of our mortgage assets to a counterparty and simultaneously enter into an agreement to repurchase the sold assets. We believe that we will be treated for federal income tax purposes as the owner of the mortgage assets that are the subject of any such sale and repurchase agreement

notwithstanding that we transferred record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we did not own the mortgage assets during the term of the sale and repurchase agreement, in which case our ability to continue to qualify as a REIT could be adversely affected.

Even if the IRS were to disagree with one or more of our interpretations and we were treated as having failed to satisfy one of the REIT qualification requirements, we could maintain our REIT qualification if our failure was excused under certain statutory savings provisions. However, there can be no guarantee that we would be entitled to benefit from those statutory savings provisions if we failed to satisfy one of the REIT qualification requirements, and even if we were entitled to benefit from those statutory savings provisions, we could be required to pay a penalty tax.

Despite our qualification for taxation as a REIT for federal income tax purposes, we may be subject to other tax liabilities that reduce our cash flow and our ability to make distributions to stockholders.

Despite our qualification for taxation as a REIT for federal income tax purposes, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income or property. Any of these taxes would decrease cash available for distribution to stockholders. For instance:

- In order to continue to qualify as a REIT, we must distribute annually at least 90% of our REIT taxable income (which is determined without regard to the dividends-paid deduction or net capital gain for this purpose) to stockholders. To the extent that we satisfy the distribution requirement but distribute less than 100% of our REIT taxable income, we will be subject to federal corporate income tax on the undistributed income.
- We will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions we pay in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years.
- If we have net income from the sale of foreclosure property that we hold primarily for sale to customers in the ordinary course of business or other non-qualifying income from foreclosure property, we must pay a tax on that income at the highest corporate income tax rate.
- If we sell an asset, other than foreclosure property, that we hold primarily for sale to customers in the ordinary course of business and do not qualify for a safe harbor in the Internal Revenue Code, our gain would be subject to the 100% "prohibited transaction" tax.
- Any domestic TRS of ours will be subject to federal corporate income tax on its income and on any non-arm's-length transactions between us and any TRS, for instance, excessive rents charged to a TRS could be subject to a 100% tax.
- We may be subject to tax on income from certain activities conducted as a result of taking title to collateral.
- We may be subject to state or local income, property and transfer taxes, such as mortgage recording taxes.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities or liquidate otherwise attractive investments.

To continue to qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to stockholders and the ownership of our stock. As discussed above, we may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. Additionally, we may be unable to pursue investments that would be otherwise attractive to us in order to satisfy the requirements for qualifying as a REIT.

We must also ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified real estate assets, including certain mortgage loans and mortgage-backed securities. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets can consist of the securities of any one issuer (other than government securities and qualified real estate assets) and no more than 25% (20% after 2017) of the value of our total securities can be represented by securities of one or more TRSs. Finally, for taxable years after 2015, no more than 25% of our assets may consist of debt instruments that are issued by "publicly offered REITs" and could not otherwise be treated as qualifying real estate assets. If we fail to comply with these requirements at the end of any calendar quarter, we must correct such failure within 30 days after the end of the calendar quarter to avoid losing our REIT status and suffering adverse tax consequences, unless certain relief provisions apply. As a result, compliance with the REIT requirements may hinder our ability to operate solely on the basis of profit maximization and may require us to liquidate investments from our portfolio, or refrain

from making, otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to stockholders.

Modification of the terms of our debt investments and mortgage loans underlying our CMBS in conjunction with reductions in the value of the real property securing such loans could cause us to fail to continue to qualify as a REIT.

Our debt and healthcare-related securities investments may be materially affected by a weak real estate market and economy in general. As a result, many of the terms of our debt and the mortgage loans underlying the healthcare-related securities in which we may invest may be modified to avoid taking title to a property. Under Treasury Regulations, if the terms of a loan are modified in a manner constituting a "significant modification," such modification triggers a deemed exchange of the original loan for the modified loan. In general, under applicable Treasury Regulations, or the Loan-to-Value Regulation, if a loan is secured by real property and other property and the highest principal amount of the loan outstanding during a taxable year exceeds the fair market value of the real property securing the loan determined as of the date we agreed to acquire the loan or the date we significantly modified the loan, a portion of the interest income from such loan will not be qualifying income for purposes of the 75% gross income test, but will be qualifying income for purposes of the 95% gross income test. Although the law is not entirely clear, a portion of the loan will likely be a non-qualifying asset for purposes of the 75% asset test. The non-qualifying portion of such a loan would be subject to, among other requirements, the requirement that a REIT not hold securities representing more than 10% of the total value of the outstanding securities of any one issuer, or the 10% Value Test. For taxable years beginning after 2015, debt obligations secured by a mortgage on both real and personal property will be treated as a real estate asset for purposes of the 75% asset test, and interest thereon will be treated as interest on an obligation secured by real property, if the fair market value of the personal property does not exceed 15% of the fair market value of all property securing the debt.

IRS Revenue Procedure 2014-51 provides a safe harbor pursuant to which we will not be required to redetermine the fair market value of the real property securing a loan for purposes of the gross income and asset tests discussed above in connection with a loan modification that is: (i) occasioned by a borrower default; or (ii) made at a time when we reasonably believe that the modification to the loan will substantially reduce a significant risk of default on the original loan. No assurance can be provided that all of our loan modifications have or will qualify for the safe harbor in Revenue Procedure 2014-51. To the extent we significantly modify loans in a manner that does not qualify for that safe harbor, we will be required to redetermine the value of the real property securing the loan at the time it was significantly modified. In determining the value of the real property securing such a loan, we generally will not obtain third-party appraisals, but rather will rely on internal valuations. No assurance can be provided that the IRS will not successfully challenge our internal valuations. If the terms of our debt investments and mortgage loans underlying our CMBS are "significantly modified" in a manner that does not qualify for the safe harbor in Revenue Procedure 2014-51 and the fair market value of the real property securing such loans has decreased significantly, we could fail the 75% gross income test, the 75% asset test and/or the 10% Value Test. Unless we qualified for relief under certain Internal Revenue Code cure provisions, such failures could cause us to fail to continue to qualify as a REIT.

Our acquisition of debt or healthcare-related securities investments may cause us to recognize income for federal income tax purposes even though no cash payments have been received on the debt investments.

We may acquire debt or securities investments in the secondary market for less than their face amount. The amount of such discount will generally be treated as a "market discount" for federal income tax purposes. If these debt or securities investments provide for "payment-in-kind" interest, we may recognize "original issue discount," or OID, for federal income tax purposes. Moreover, we may acquire distressed debt investments that are subsequently modified by agreement with the borrower. If the amendments to the outstanding debt constitute "significant modifications" under the applicable Treasury Regulations, the modified debt may be considered to have been reissued to us in a debt-for-debt exchange with the borrower. In that event, if the debt is considered to be "publicly traded" for federal income tax purposes, the modified debt in our hands may be considered to have been issued with OID to the extent the fair market value of the modified debt is less than the principal amount of the outstanding debt. In the event the debt is not considered to be "publicly traded" for federal income tax purposes, we may be required to recognize taxable income to the extent that the principal amount of the modified debt exceeds our cost of purchasing it. Also, certain loans that we originate and later modify and certain previously modified debt we acquire in the secondary market may be considered to have been issued with the OID at the time it was modified.

In general, we will be required to accrue OID on a debt instrument as taxable income in accordance with applicable federal income tax rules even though no cash payments may be received on such debt instrument.

In the event a borrower with respect to a particular debt instrument encounters financial difficulty rendering it unable to pay stated interest as due, we may nonetheless be required to continue to recognize the unpaid interest as taxable income. Similarly, we may be required to accrue interest income with respect to subordinate mortgage-backed securities at the stated rate regardless of when their corresponding cash payments are received.

In order to meet the REIT distribution requirements, it might be necessary for us to arrange for short-term, or possibly long-term borrowings, or to pay distributions in the form of our shares or other taxable in-kind distributions of property. We may need to borrow funds at times when the market conditions are unfavorable. Such borrowings could increase our costs and reduce the value of a stockholder's investment. In the event in-kind distributions are made, a stockholder's tax liabilities associated with an investment in our common stock for a given year may exceed the amount of cash we distribute to stockholders during such year.

Complying with REIT requirements may limit our ability to hedge effectively.

The REIT provisions of the Internal Revenue Code may limit our ability to hedge our operations effectively. Our aggregate gross income from non-qualifying hedges, fees and certain other non-qualifying sources cannot exceed 5% of our annual gross income. As a result, we might have to limit our use of advantageous hedging techniques or implement those hedges through a TRS. Any hedging income earned by a TRS would be subject to federal, state and local income tax at regular corporate rates. This could increase the cost of our hedging activities or expose us to greater risks associated with interest rate or other changes than we would otherwise incur.

Liquidation of assets may jeopardize our REIT qualification.

To continue to qualify as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate our investments to satisfy our obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our qualification as a REIT, or we may be subject to a 100% prohibited transaction tax on any resulting gain if we sell assets that are treated as dealer property or inventory.

The prohibited transactions tax may limit our ability to engage in transactions, including disposition of assets and certain methods of securitizing loans, which would be treated as sales for federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of dealer property, other than foreclosure property, but include loans held primarily for sale to customers in the ordinary course of business. We might be subject to the prohibited transaction tax if we were to dispose of or securitize loans in a manner that is treated as a sale of the loans, for federal income tax purposes. Therefore, in order to avoid the prohibited transactions tax, we may choose not to engage in certain sales of loans and may limit the structures we use for any securitization financing transactions, even though such sales or structures might otherwise be beneficial to us. Additionally, we may be subject to the prohibited transaction tax upon a disposition of real property. Although a safe-harbor exception to prohibited transaction treatment is available, we cannot assure stockholders that we can comply with such safe harbor or that we will avoid owning property that may be characterized as held primarily for sale to customers in the ordinary course of our trade or business. Consequently, we may choose not to engage in certain sales of real property or may conduct such sales through a TRS.

It may be possible to reduce the impact of the prohibited transaction tax by conducting certain activities through a TRS. However, to the extent that we engage in such activities through a TRS, the income associated with such activities will be subject to a corporate income tax.

We also may not be able to use secured financing structures that would create taxable mortgage pools, other than in a TRS, or through a subsidiary REIT.

We may recognize substantial amounts of REIT taxable income, which we would be required to distribute to stockholders, in a year in which we are not profitable under U.S. GAAP or other economic measures.

We may recognize substantial amounts of REIT taxable income in years in which we are not profitable under U.S. GAAP or other economic measures as a result of the differences between U.S. GAAP and tax accounting methods. For instance, certain of our assets will be marked to market for U.S. GAAP purposes but not for tax purposes, which could result in losses for U.S. GAAP purposes that are not recognized in computing our REIT taxable income. Additionally, we may deduct our capital losses only to the extent of our capital gains in computing our REIT taxable income for a given taxable year. Consequently, we could recognize substantial amounts of REIT taxable income and would be required to distribute such income to stockholders, in a year in which we are not profitable under U.S. GAAP or other economic measures.

We may distribute our common stock in a taxable distribution, in which case stockholders may sell shares of our common stock to pay tax on such distributions, and stockholders may receive less in cash than the amount of the dividend that is taxable.

We may make taxable distributions that are payable in cash and common stock. The IRS has issued private letter rulings to other REITs treating certain distributions that are paid partly in cash and partly in stock as taxable distributions that would satisfy the REIT annual distribution requirement and qualify for the dividends paid deduction for federal income tax purposes. Those rulings may be relied upon only by taxpayers to whom they were issued, but we could request a similar ruling from the IRS. Accordingly, it is unclear whether and to what extent we will be able to make taxable distributions payable in cash and common stock. If we made a taxable dividend payable in cash and common stock, taxable stockholders receiving such distributions will be required to

include the full amount of the dividend, which is treated as ordinary income to the extent of our current and accumulated earnings and profits, as determined for federal income tax purposes. As a result, stockholders may be required to pay income tax with respect to such distributions in excess of the cash distributions received. If a U.S. stockholder sells the common stock that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount recorded in earnings with respect to the dividend, depending on the market price of our common stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in common stock.

REIT distribution requirements could adversely affect our ability to execute our business plan.

We generally must distribute annually at least 90% of our REIT taxable income (which is determined without regard to the dividends-paid deduction or net capital gain for this purpose) in order to continue to qualify as a REIT. We intend to make distributions to stockholders to comply with the REIT requirements of the Internal Revenue Code and to avoid corporate income tax and the 4% excise tax. We may be required to make distributions to stockholders at times when it would be more advantageous to reinvest cash in our business or when we do not have funds readily available for distribution. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

Distributions paid by REITs do not qualify for the reduced tax rates that apply to other corporate distributions.

The maximum tax rate for "qualified dividends" paid by corporations to non-corporate stockholders is currently 20%. Distributions paid by REITs, however, generally are taxed at ordinary income rates (subject to a maximum rate of 39.6% for non-corporate stockholders), rather than the preferential rate applicable to qualified dividends. The more favorable rates applicable to regular corporate distributions could cause potential investors who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay qualified distributions, which could adversely affect the value of the stock of REITs, including our common stock.

Our qualification as a REIT could be jeopardized as a result of our interest in joint ventures or investment funds.

We have acquired, and in the future may acquire, limited partner or non-managing member interests in partnerships and limited liability companies that are joint ventures or investment funds. If a partnership or limited liability company in which we own an interest takes or expects to take actions that could jeopardize our qualification as a REIT or require us to pay tax, we may be forced to dispose of our interest in such entity. In addition, it is possible that a partnership or limited liability company could take an action which could cause us to fail a REIT gross income or asset test, and that we would not become aware of such action in time to dispose of our interest in the partnership or limited liability company or take other corrective action on a timely basis. In that case, we could fail to continue to qualify as a REIT unless we are able to qualify for a statutory REIT "savings" provision, which may require us to pay a significant penalty tax to maintain our REIT qualification.

The formation of any TRS lessees may increase our overall tax liability and transactions between us and any TRS lessee must be conducted on arm's-length terms to not be subject to a 100% penalty tax on certain items of income or deduction.

We have formed a TRS lessee to lease our senior housing facilities that are "qualified health care properties." Our TRS lessee will be subject to federal and state income tax on its taxable income, which will consist of the revenues from the senior housing facilities leased by the TRS lessee, net of the operating expenses for such properties and rent payments to us. Accordingly, the ownership of our TRS lessee will allow us to participate in the operating income from our properties leased to our TRS lessee on an after-tax basis in addition to receiving rent. The after-tax net income of the TRS lessee is available for distribution to us. The REIT rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis. We will scrutinize all of our transactions with any TRS lessee to ensure that they are entered into on arm's-length terms, but there can be no assurance that we will be able to comply to avoid application of the 100% excise tax.

If our TRS lessee failed to qualify as a TRS or the facility operators engaged by our TRS lessee do not qualify as "eligible independent contractors," we would fail to qualify as a REIT and would be subject to higher taxes and have less cash available for distribution to stockholders.

Rent paid by a lessee that is a "related party operator" of ours will not be qualifying income for purposes of the two gross income tests applicable to REITs. We may lease certain of our senior housing facilities to our TRS lessee. So long as our TRS lessee qualifies as a TRS, it will not be treated as a "related party operator" with respect to our properties that are managed by an independent facility operator that qualifies as an "eligible independent contractor." We expect that our TRS lessee will qualify to be treated as a TRS for federal income tax purposes, but there can be no assurance that the IRS will not challenge the status of a TRS for federal income tax purposes or that a court would not sustain such a challenge. If the IRS were successful in disqualifying our TRS lessee from treatment as a TRS, we would fail to meet the asset tests applicable to REITs and a portion of our income would fail to qualify for the gross income tests. If we failed to meet either the asset or gross income tests, we would lose our REIT qualification for federal income tax purposes unless we qualified for application of statutory savings provisions.

Additionally, if the operators engaged by our TRS lessee do not qualify as "eligible independent contractors," we would fail to qualify as a REIT. Each of the operators that enter into a management contract with our TRS lessee must qualify as an "eligible independent contractor" under the REIT rules in order for the rent paid to us by our TRS lessee to be qualifying income for purposes of the REIT gross income tests. Among other requirements, in order to qualify as an eligible independent contractor, an operator must not own, directly or indirectly, more than 35% of our outstanding stock and no person or group of persons can own more than 35% of our outstanding stock and the ownership interests of the operator, taking into account certain ownership attribution rules. The ownership attribution rules that apply for purposes of these 35% thresholds are complex. Although we intend to monitor ownership of our stock by our operators and their owners, there can be no assurance that these ownership levels will not be exceeded.

In addition, in order to qualify as an "eligible independent contractor," among other requirements, an operator (or any related person) must be actively engaged in the trade or business of operating "qualified health care properties" for persons who are not related to us or our TRS lessee. Consequently, if an operator (or a related person) from whom we acquire a "qualified health care property" does not operate sufficient "qualified health care properties" for third parties, the operator will not qualify as an "eligible independent contractor." Under this scenario, we would either be required to contract with another third party operator who qualifies as an "eligible independent contractor," which could serve as a disincentive for the current operator to sell the property to us, or we would be unable to lease the property to our TRS lessee.

Our ability to lease certain of the senior housing facilities we acquire to our TRS lessee will be limited by the ability of those senior housing facilities to qualify as "qualified health care properties."

We may lease certain of the senior housing facilities we acquire to our TRS lessee, which would contract with operators to manage the health care operations at those facilities. Our ability to use this TRS lessee structure may be limited by the ability of those senior housing facilities to qualify as "qualified health care properties" and the ability of the operators who our TRS lessee engages to manage the "qualified health care properties" to qualify as "eligible independent contractors."

A "qualified health care property" includes any real property and any personal property that is, or is necessary or incidental to the use of, a hospital, nursing facility, assisted living facility, congregate care facility, qualified continuing care facility or other licensed facility which extends medical or nursing or ancillary services to patients and which is operated by a provider of such services which is eligible for participation in the Medicare program with respect to such facilities. Some of the properties that we will acquire may not be treated as "qualified health care properties." To the extent a property does not constitute a "qualified health care property," we will be unable to use the TRS lessee structure with respect to that property.

Our leases must be respected as true leases for federal income tax purposes.

To qualify as a REIT, we must satisfy two gross income tests each year, under which specified percentages of our gross income must be qualifying income, such as "rents from real property." In order for rent on a lease to qualify as "rents from real property" for purposes of the gross income tests, the lease must be respected as a true lease for federal income tax purposes. If the IRS were to recharacterize our sale-leasebacks as financing arrangements or loans or were to recharacterize other leases as service contracts, joint ventures or some other type of arrangements, we could fail to qualify as a REIT.

Our charter limits the number of shares a person may own, which may discourage a takeover that could otherwise result in a premium price paid to stockholders.

Our charter, with certain exceptions, authorizes our board of directors to take such actions as are necessary and desirable to preserve our qualification as a REIT. To help us comply with the REIT ownership requirements of the Internal Revenue Code, among other purposes, our charter prohibits a person from directly or constructively owning more than 9.8% in value of the aggregate of the outstanding shares of our stock of any class or series or more than 9.8% in value or number of shares, whichever is more restrictive, of the aggregate of the outstanding shares of our common stock, unless exempted (prospectively or retroactively) by our board of directors. This restriction may have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might otherwise provide a premium price for holders of our shares of common stock.

Legislative or regulatory tax changes could adversely affect us or stockholders.

At any time, the federal income tax laws can change. Laws and rules governing REITs or the administrative interpretations of those laws may be amended. Any of those new laws or interpretations may take effect retroactively and could adversely affect us or stockholders.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our healthcare real estate property investments are a part of our healthcare real estate equity segment and are described under Item 1. "Business." The following table presents information with respect to our properties, excluding properties owned through unconsolidated joint ventures, as of December 31, 2016 (dollars in thousands):

Location	Square Feet	Units[1]	Ownership Interest	Type[2]	Lease Expiration Date[3]	Gross Carrying Value[4]	Borrowings
Net Lease Portfolio							
Bellevue, WA	125,700	127	100%	CCRC	Feb-22	$ 47,466	$ 30,900
Bohemia, NY	73,000	128	100%	ALF	Aug-29	32,220	24,946
Cheektowaga, NY	81,953	100	100%	ALF	Oct-20	12,613	8,612
Clinton, CT	25,332	48	100%	MCF	Oct-20	10,885	6,269
Dana Point, CA	275,106	181	100%	CCRC	Feb-22	47,648	32,757
Hauppauge, NY	84,000	119	100%	ALF	Aug-29	21,861	15,135
Islandia, NY	192,000	218	100%	ALF	Aug-29	45,837	37,191
Jericho, NY	55,000	105	100%	ALF	Aug-29	21,747	16,478
Kalamazoo, MI	248,610	213	100%	CCRC	Feb-22	36,189	34,800
Leawood, KS	48,470	70	100%	ALF	Oct-23	8,000	—
Oklahoma City, OK	237,248	213	100%	CCRC	Feb-22	9,833	3,000
Palm Desert, CA	258,020	245	100%	CCRC	Feb-22	45,111	16,495
Sarasota, FL	497,454	282	100%	CCRC	Feb-22	78,836	55,592
Skaneateles, NY	13,233	14	100%	ALF	Oct-20	3,000	2,090
Smyrna, GA	26,500	56	100%	MCF	Oct-20	10,029	7,029
Spring Hill, KS	28,116	48	100%	ALF	Oct-23	7,000	—
Senior Housing Operating Portfolio[5]							
Alexandria, VA	209,354	208	97%	CCRC	Feb-22	49,756	40,350
Apple Valley, CA	116,365	130	100%	ILF	NA	25,855	21,850
Auburn, CA	90,494	110	100%	ILF	NA	20,253	24,685
Austin, TX	102,356	130	100%	ILF	NA	23,778	27,180
Bakersfield, CA	106,640	126	100%	ILF	NA	23,008	17,249
Bangor, ME	111,000	117	100%	ILF	NA	25,781	21,998
Bellingham, WA	86,615	111	100%	ILF	NA	21,301	24,426
Clovis, CA	99,849	118	100%	ILF	NA	23,596	19,223
Columbia, MO	105,948	120	100%	ILF	NA	25,297	23,258
Corpus Christi, TX	118,671	132	100%	ILF	NA	22,644	19,058
Crystal Lake, IL	195,405	211	97%	CCRC	Feb-22	36,327	27,630
Denver, CO	148,021	214	97%	ALF	Jan-21	38,940	21,500
East Amherst, NY	100,997	116	100%	ILF	NA	21,304	18,983
El Cajon, CA	77,930	105	100%	ILF	NA	17,183	21,504
El Paso, TX	95,517	121	100%	ILF	NA	15,837	12,510
Fairport, NY	126,927	120	100%	ILF	NA	20,929	16,928
Fenton, MO	95,007	114	100%	ILF	NA	24,850	25,155
Frisco, TX	299,480	202	97%	ILF	Feb-21	39,751	20,000
Frisco, TX	45,130	52	97%	ILF	Feb-21	13,729	—
Grand Junction, CO	124,174	144	100%	ILF	NA	29,045	19,965
Grand Junction, CO	79,778	103	100%	ILF	NA	13,797	10,230
Grapevine, TX	97,796	116	100%	ILF	NA	20,432	22,883
Groton, CT	119,474	160	100%	ILF	NA	25,706	18,029
Guilford, CT	142,136	130	100%	ILF	NA	34,363	24,895
Independence, MO	172,041	199	97%	CCRC	Feb-22	18,702	15,600
Joliet, IL	117,357	114	100%	ILF	NA	25,062	15,278
Kennewick, WA	105,268	120	100%	ILF	NA	20,200	7,865
Las Cruces, NM	113,874	131	100%	ILF	NA	16,737	11,461
Lees Summit, MO	122,917	125	100%	ILF	NA	22,057	27,855
Lodi, CA	96,251	119	100%	ILF	NA	24,043	20,605
Milford, OH	145,896	125	97%	ILF	Dec-20	16,915	18,760
Millbrook, NY	231,695	173	97%	CCRC	Feb-22	30,753	24,825
Normandy Park, WA	98,206	109	100%	ILF	NA	18,864	16,628
Palatine, IL	161,700	135	100%	ILF	NA	28,310	20,604
Plano, TX	106,868	115	100%	ILF	NA	17,194	16,485
Renton, WA	88,162	111	100%	ILF	NA	23,326	19,513
Sandy, UT	103,449	116	100%	ILF	NA	21,978	16,185

Location	Square Feet	Units[1]	Ownership Interest	Type[2]	Lease Expiration Date[3]	Gross Carrying Value[4]	Borrowings
Santa Rosa, CA	120,553	115	100%	ILF	NA	31,758	28,630
Southfield, MI	275,000	345	97%	CCRC	Feb-22	14,769	9,000
St. Petersburg, FL	407,128	513	97%	CCRC	Feb-22	54,993	34,109
Sun City West, AZ	200,553	193	100%	ILF	NA	32,148	26,306
Tacoma, WA	150,000	157	100%	ILF	NA	40,582	30,787
Tarboro, NC	186,000	175	97%	CCRC	Feb-22	21,075	14,812
Tuckahoe, NY	110,000	126	97%	CCRC	Feb-22	32,076	12,755
Tucson, AZ	378,025	404	97%	CCRC	Feb-22	68,874	57,375
	8,655,749	9,097				$ 1,632,153	$ 1,236,221

(1) Represents rooms for ALF and ILF and beds for MCF.
(2) Classification based on predominant services provided, but may include other services.
(3) Based on initial term. For senior operating facilities the lease term of the operator is included. For ILFs the tenant's initial term is less than one year with month-to-month renewal options.
(4) Represents operating real estate before accumulated depreciation as presented in our consolidated financial statements and excludes purchase price allocations related to net intangibles and other assets and liabilities as of December 31, 2016. Refer to "Note 3. Operating Real Estate" of Part II, Item 8. "Financial Statements and Supplementary Data."
(5) Excludes one property in which we hold a Remainder Interest in 17 condominium units.

As of December 31, 2016, none of our properties had a carrying value equal to or greater than 10% of our total assets. For the year ended December 31, 2016, gross revenues from two of our operators, Watermark Retirement Communities and Holiday Retirement Communities, were 49.0% and 38.6%, respectively, of total revenues in respect of our direct investments. No other operator generated more than 10% of gross revenues during the year ended December 31, 2016.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

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

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

On December 7, 2016, upon the recommendation of the audit committee of our board of directors, including all of our independent directors, approved and established an estimated value per share of our common stock of $9.10. The estimated value per share is based upon the estimated value of our assets less the estimated value of our liabilities as of June 30, 2016, divided by the number of shares of our common stock outstanding as of June 30, 2016. The information used to generate the estimated value per share, including market information, investment- and property-level data and other information provided by third parties, was the most recent information practically available as of June 30, 2016.

The determination to update our estimated value per share as of June 30, 2016 was made by the audit committee based upon the recommendation of our Advisor. Our Advisor recommended updating the previous estimated value per share, which was determined as of December 31, 2015, to reflect the impact of subsequent events, including significant investment activity completed by us following the previous valuation date. The estimated value per share of our common stock does not include the potential impact of subsequent investments after June 30, 2016, or, as further described below, any premium or benefit for the enterprise value that may be attributable to us due to the size and diversity of our investment portfolio, including its exposure, either directly or through joint ventures, to approximately $9.8 billion in healthcare real estate investments as of June 30, 2016.

As of June 30, 2016, the estimated value of our (i) healthcare real estate properties was $2.0 billion, compared with an aggregate initial purchase price, including subsequent capital expenditures, of $1.8 billion, (ii) healthcare real estate investments held through unconsolidated joint ventures was $538.4 million, compared with an aggregate equity contribution, including subsequent capital contributions, of $505.8 million, (iii) healthcare-related commercial real estate debt investments was $192.9 million, compared with an aggregate outstanding principal amount of $193.5 million, and (iv) healthcare real estate liabilities was $1.21 billion, compared with an aggregate outstanding principal amount of $1.23 billion.

For additional information on the methodology used in calculating our estimated value per share as of June 30, 2016, refer to our Current Report on Form 8-K filed with the SEC on December 9, 2016.

The board of directors currently expects that our next estimated value per share will be based upon our assets and liabilities as of June 30, 2017 and such value will be included in a Current Report on Form 8-K or such other filing with the SEC. We intend to continue to publish updated estimated values per share annually.

Stockholders

As of March 24, 2017, we had 37,943 stockholders of record.

Distributions

The following table summarizes distributions declared for the years ended December 31, 2016, 2015 and 2014 (dollars in thousands):

	Distributions[1]		
Period	Cash	DRP	Total
2016			
First Quarter	$ 13,408	$ 16,827	$ 30,235
Second Quarter	13,580	16,915	30,495
Third Quarter	13,974	17,120	31,094
Fourth Quarter	14,261	17,057	31,318
Total	$ 55,223	$ 67,919	$ 123,142
2015			
First Quarter	$ 8,023	$ 10,143	$ 18,166
Second Quarter	8,772	11,068	19,840
Third Quarter	10,142	12,791	22,933
Fourth Quarter	12,035	15,297	27,332
Total	$ 38,972	$ 49,299	$ 88,271
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

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

Distribution Reinvestment Plan

We adopted our DRP through which common stockholders may elect to reinvest an amount equal to the distributions declared on their shares in additional shares of our common stock in lieu of receiving cash distributions. The purchase price per share under our Initial DRP was $9.50. In connection with its determination of the offering price for shares of our common stock in our Follow-on Offering, the board of directors determined that distributions may be reinvested in shares of our common stock at a price of $9.69 per share, which is approximately 95% of the offering price of $10.20 per share established for purposes of our Follow-on Offering. In April 2016, in connection with its determination of the estimated value of our shares of common stock as of December 31, 2015, the board of directors determined that distributions may be reinvested in shares of our common stock at a price of $8.63 per share, which was equal to the estimated value per share of our shares of common stock as of December 31, 2015. In connection with its determination of the estimated value of our shares of common stock as of June 30, 2016, and pursuant to our DRP, effective December 7, 2016, distributions may be reinvested in shares of our common stock at a price of $9.10 per share, which is equal to the estimated value per share as of June 30, 2016, until such time we establish a new estimated per share value, at which time the purchase price will adjust to 100% of such estimated value per share.

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, 2016, we issued 13.7 million shares totaling $126.8 million of gross offering proceeds pursuant to our Initial DRP and Follow-on DRP.

Our Initial Offering (including 8.6 million shares reallocated from our Initial DRP) was completed on February 2, 2015 by raising $1.1 billion. All of the shares initially registered for our Initial Offering were issued.

We stopped accepting subscriptions for our Follow-on Offering on December 17, 2015 and all of the shares initially registered (including $159.5 million of shares reallocated from our Follow-on DRP) for our Offering were issued on or before January 19,

2016. We registered an additional 30.0 million shares to be offered pursuant to our DRP beyond the completion of our Offering and continue to offer such shares.

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.

On February 6, 2015, our registration statement on Form S-11 (File No. 333-199125), covering our Follow-on Offering of up to $700.0 million which included 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, was declared effective under the Securities Act. We offered shares of common stock pursuant to our Follow-on Offering at $10.20 per share with discounts available to certain categories of purchasers and shares of common stock pursuant to our DRP at $9.69 per share. We stopped accepting subscriptions for our Follow-on Offering on December 17, 2015 and all of the shares initially registered for our Offering were issued on or before January 19, 2016. We registered an additional 30.0 million shares to be offered pursuant to our DRP beyond the completion of our Offering and continue to offer such shares.

As of December 31, 2016, we issued the following shares of common stock and raised the following gross proceeds (dollars and shares in thousands):

	Shares[1]	Proceeds[1]
Primary Offering	173,438	$ 1,742,290
DRP	13,705	126,849
Total	187,143	$ 1,869,139

(1) Excludes shares repurchased.

For the period from the commencement of our Follow-on Offering through December 31, 2016, we issued 69.1 million shares of common stock generating total gross proceeds of $700.0 million pursuant to our Follow-on Offering, including 4.2 million shares of common stock and $40.5 million of gross proceeds pursuant to our Follow-on DRP.

From the commencement of our Offering through December 31, 2016, we incurred $117.5 million in selling commissions, $52.1 million in dealer manager fees and $11.5 million in other offering costs in connection with the issuance and distribution of our registered securities and $138.8 million of these costs have been reallowed to third parties.

From the commencement of our Offering through December 31, 2016, the net proceeds to us from our Offering, after deducting the total expenses incurred described above, were $1.6 billion. From the commencement of our Offering through December 31, 2016, we used proceeds of $1.1 billion to purchase real estate equity investments, $219.4 million to acquire and originate real estate debt investments, $30.5 million to purchase a healthcare-related securities investment and $74.8 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, as amended on April 7, 2016, which enables stockholders to sell their shares to us in limited circumstances. We may not repurchase shares unless a stockholder has held shares for at least one year. However, we may repurchase shares held for less than one year in connection with a stockholder's death or qualifying disability. We will repurchase shares within two years of such death or qualifying disability of a stockholder at the higher of the price paid for the shares, as adjusted for any stock dividends, combinations, splits, recapitalizations or any similar transaction with respect to the shares of common stock, or our estimated value per share. A qualifying disability is a disability as such term is defined in Section 72(m)(7) of the Internal Revenue Code that arises after the purchase of the shares requested to be repurchased. We are not obligated to repurchase shares under our Share Repurchase Program. Except in the case of death or qualifying disability (as described above), the price paid for shares redeemed under the Share Repurchase Program for requests received after April 30, 2016 is 100% of the most recently disclosed estimated value per share.

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. Our board of directors may, in its sole discretion, amend, suspend or terminate our Share Repurchase Program at any time provided that any amendment that adversely affects the rights or obligations of a participant (as determined in the sole discretion of our board of directors) will only take effect upon ten days' prior written notice except that changes in the number of shares that can be repurchased during any

calendar year will take effect only upon ten business days' prior written notice. In addition, our Share Repurchase Program will terminate in the event a secondary market develops for our shares or if our shares are listed on a national exchange or included for quotation in a national securities market.

For the year ended December 31, 2016, we repurchased shares of our common stock as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan or Program
January 1 to January 31	284,121	$ 9.51	284,121	(1)
February 1 to February 29	—	—	—	
March 1 to March 31	—	—	—	
April 1 to April 30	—	—	—	
May 1 to May 31	266,860	$ 9.50	266,860	(1)
June 1 to June 30	—	—	—	
July 1 to July 31	—	—	—	
August 1 to August 31	524,952	$ 8.94	524,952	(1)
September 1 to September 30	—	—	—	
October 1 to October 31	—	—	—	
November 1 to November 30	688,694	$ 9.01	688,694	(1)
December 1 to December 31	—	—	—	
Total	1,764,627	$ 9.15	1,764,627	

(1) Subject to funds being available, we will limit the number of shares repurchased 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.

As of December 31, 2016, we had no unfulfilled repurchase requests.

Unregistered Sales of Equity Securities

During the three months ended December 31, 2016, we did not issue any equity securities that were not registered under the Securities Act. All prior sales of unregistered securities have been previously reported on quarterly reports on Form 10-Q and annual reports on Form 10-K.

Item 6. Selected Financial Data

The information below should be read in conjunction with "Forward-Looking Statements" Part I, Item 1A. "Risk Factors," Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes thereto included in Part II, Item 8. "Financial Statements and Supplementary Data," included in this Annual Report on Form 10-K.

	Years Ended December 31,			
	2016	2015	2014	2013[1]
	(Dollars in thousands, except per share data)			
Operating Data:				
Resident fee income	$ 102,915	$ 63,056	$ 14,511	$ 38
Rental income	132,108	28,456	8,038	488
Net interest income	18,970	17,763	7,490	375
Total revenues	255,578	111,216	30,039	901
Total expenses	334,887	149,791	34,125	3,471
Equity in earnings (losses) of unconsolidated ventures	(62,175)	(49,046)	(12,127)	—
Net income (loss)	(141,282)	(82,744)	(14,979)	(2,570)
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	(141,275)	(82,370)	(14,945)	(2,560)
Net income (loss) per share of common stock, basic/diluted	$ (0.77)	$ (0.63)	$ (0.38)	$ (1.26)
Distributions declared per share of common stock	$ 0.68	$ 0.68	$ 0.68	$ 0.50

(1) We commenced operations in February 2013.

	As of December 31,				
	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$ 223,102	$ 354,229	$ 267,672	$ 45,537	$ 202
Operating real estate, net	1,571,980	832,253	259,409	53,969	—
Investments in unconsolidated ventures	360,534	534,541	215,175	—	—
Real estate debt investments, net	74,558	192,934	146,267	11,250	—
Senior housing mortgage loans held in a securitization trust, at fair value	553,707	—	—	—	—
Total assets	2,958,209	2,002,228	917,104	115,839	202
Total borrowings	1,200,982	570,985	74,355	18,282	—
Senior housing mortgage obligations issued by a securitization trust, at fair value	522,933	—	—	—	—
Due to related party	219	443	755	1,141	—
Total liabilities	1,766,235	596,728	85,119	22,344	—
Total equity	1,191,974	1,405,500	831,985	93,495	202

	Years Ended December 31,			
	2016	2015	2014	2013[1]
	(Dollars in thousands)			
Other Data:				
Cash flow provided by (used in):				
Operating activities	$ 3,972	$ (8,563)	$ (1,920)	$ (342)
Investing activities	(74,331)	(1,069,333)	(581,879)	(59,069)
Financing activities	(60,768)	1,164,453	805,934	104,746

(1) We commenced operations in February 2013.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto included in Part II, Item 8 "Financial Statements and Supplementary Data" and risk factors in Part I, Item 1A. Risk Factors of this report. 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, which we define as assisted living, or ALF, memory care, or MCF, skilled nursing, or SNF, independent living, or ILF, facilities and continuing care retirement communities, or CCRC, which may have independent living, assisted living, skilled nursing and memory care available on one campus. We also invest in other healthcare property types, including medical office buildings, or MOB, hospitals, rehabilitation facilities and ancillary healthcare services businesses. Our investments are predominantly in the United States, but we also selectively make international investments. We were formed in October 2010 as a Maryland corporation and commenced operations in February 2013. We elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, commencing with the taxable year ended December 31, 2013. We conduct our operations so as to continue to qualify as a REIT for U.S. federal income tax purposes.

Our equity investments are generally healthcare properties, which are either structured as net leases to healthcare operators or operated through management agreements with independent third-party operators, where applicable through the REIT Investment Diversification and Empowerment Act of 2007, or RIDEA, structures that permit us, through taxable REIT subsidiaries, or TRS, to have direct exposure to resident fee income and incur related operating expenses. Our debt investments generally consist of first mortgage loans and mezzanine loans. Our securities investments may include commercial mortgage-backed securities, or CMBS, and other securities backed primarily by loans secured by healthcare properties.

We are externally managed and have no employees. Prior to January 11, 2017, we were managed by an affiliate of NorthStar Asset Management Group Inc. (NYSE: NSAM), or NSAM. Effective January 10, 2017, NSAM completed its previously announced mergers with Colony Capital, Inc., or Colony, NorthStar Realty Finance Corp., or NorthStar Realty, and Colony NorthStar, Inc., or Colony NorthStar, a wholly-owned subsidiary of NSAM, which we refer to as the mergers, with Colony NorthStar surviving the mergers and succeeding NSAM as our Sponsor. As a result of the mergers, our Sponsor became an internally-managed equity REIT, with a diversified real estate and investment management platform and publicly-traded on the NYSE under the ticker symbol "CLNS." CNI NSHC Advisors, LLC, as successor to NSAM J-NSHC Ltd, or our Advisor, is now a subsidiary of Colony NorthStar. Our Advisor manages our day-to-day operations pursuant to an advisory agreement. The mergers had no material impact on our operations.

Our Sponsor and its affiliates also provide asset management and other services to NorthStar Realty Europe Corp. (NYSE: NRE), other sponsored public retail-focused companies, private funds and any other companies our Sponsor and its affiliates may manage in the future, or collectively the Managed Companies, both in the United States and internationally. As of February 28, 2017, our Sponsor had an aggregate of $56.0 billion of assets under management, adjusted for commitments to acquire or sell certain investments by our Sponsor and the Managed Companies.

Previously, we were managed by an affiliate of NorthStar Realty until June 30, 2014, when it spun-off its asset management business into NSAM. Concurrent with the spin-off, 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 material impact on our operations.

Our primary investment types are as follows:

- *Real Estate Equity* - Our equity investments, directly or through joint ventures, focus on properties in the mid-acuity senior housing sector, which we define as ALF, MCF, SNF, ILF and CCRC. Our equity investments may also include MOB, hospitals, rehabilitation facilities and ancillary healthcare services businesses. Our investments are predominantly in the United States, but we also selectively make international investments. Our healthcare properties generally operate under net leases or through management agreements with independent third-party operators.

- *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 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 primary offering to the public, 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. Our Initial Offering (including 8.6 million shares reallocated from our Initial DRP) was completed on February 2, 2015 by raising gross proceeds of $1.1 billion. All of the shares initially registered for our Initial Offering were issued.

On February 6, 2015, our registration statement on Form S-11 was declared effective by the U.S. Securities and Exchange Commission, or SEC, for a follow-on public offering, or our Follow-on Offering, of up to $700.0 million, which included 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 stopped accepting subscriptions for our Follow-on Offering on December 17, 2015 and all of the shares initially registered (including $159.5 million of shares reallocated from our Follow-on DRP) for our Follow-on Offering were issued on or before January 19, 2016. We registered an additional 30.0 million shares to be offered pursuant to our DRP beyond the completion of our Follow-on Offering and continue to offer such shares.

Our Initial Primary Offering and our Follow-on Primary Offering are collectively referred to as our Primary Offering and our distribution reinvestment plan, including but not limited to our Initial DRP and Follow-on DRP, are collectively referred to as our DRP. Additionally, our Primary Offering and our Initial DRP and our Follow-on DRP are collectively referred to as our Offering.

NorthStar 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, served as the dealer manager for our Primary Offering.

From inception through March 22, 2017, we raised total gross proceeds of $1.9 billion, including $143.6 million in DRP proceeds.

Sources of Operating Revenues and Cash Flows

We generate revenues from resident fees, rental income and net interest income. Resident fee income from our senior housing operating facilities is recorded when services are rendered and includes resident room and care charges and other resident charges. Rental income is generated from our real estate for the leasing of space to various types of healthcare operators/tenants. Net interest income is generated from our debt and securities investments. Additionally, we report our proportionate interest of revenues and expenses from unconsolidated joint ventures which own healthcare real estate.

Profitability and Performance Metrics

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

Outlook and Recent Trends

The U.S. economy continues to demonstrate positive underlying fundamentals, with moderate gross domestic product, or GDP, growth and improving employment conditions during 2016, leading to increased levels of consumer confidence early in 2017. Although 2016 GDP growth of 1.6% remained below historical levels, the unemployment rate declined to 4.7% in December and wage levels are experiencing their first significant increases since 2009. Improved macroeconomic conditions have prompted the Federal Reserve to pursue measured interest rates increases, including the third rate increase in nine years in March 2017. The Federal Reserve has indicated that at least two additional interest rate increases are expected during 2017, further demonstrating its confidence in overall economic conditions.

Despite initial market volatility and uncertainty following the results of the non-binding referendum passed in the United Kingdom supporting the exit from the European Union and the U.S. Presidential election, the U.S. and global financial markets have since rebounded, with major market indices continuing to achieve record levels, including the Dow Jones Industrial Average surpassing 21,000 for the first time ever. In addition, benchmark 10-year interest rates in several key global economies, including England, Germany and Japan, have recently trended to positive territory, signaling normalized market conditions following periods of negative interest rates. While many global central banks continue to ease monetary policy to combat low inflation and economic stagnation, increased growth expectations in the United States may result in rising price levels and additional pressure to raise interest rates. The pace of these changes may create volatility in global debt and equity markets as the Federal Reserve seeks to reduce its large balance sheet holdings acquired in response to the financial crisis. In addition, the impact of potentially significant

fiscal and regulatory policy changes, including potential infrastructure spending, healthcare reform and new trade policies, may also have a considerable impact on the trajectory of the U.S. and global economies during 2017.

Commercial real estate fundamentals remain relatively healthy across U.S. property types. Investor demand in 2016 for income-producing properties drove increased transaction activity, with rent levels, vacancy levels and property prices improving across most property sectors. Private real estate investment remained strong throughout early 2016 as many key markets and property types approached or surpassed their 2007 valuation peaks. Transaction activity slowed in late 2016, however, resulting in a flattening of price appreciation and concern that certain markets may be entering the late stage of the current real estate cycle. In addition, large amounts of ten-year debt originated during 2007 is set to mature in 2017, and these maturities may contribute to periodic volatility in the commercial real estate market. With CMBS issuance declining 25% in 2016, from $101.0 billion in 2015 to $76.0 billion in 2016, traditional capital sources such as banks and CMBS lenders may lack sufficient lending capacity to absorb the high refinancing demand. As regulatory uncertainty continues to limit CMBS issuance, these developments may provide attractive lending opportunities for new market participants such as alternative investment platforms, REITs and insurance companies. Industry experts estimate a projected total origination volume of approximately $55 billion for 2017, with the shift to non-traditional lenders resulting in higher underwriting standards that may support market stability and a protracted environment of increasing commercial real estate values.

Healthcare Markets

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

We believe owners and operators of senior housing facilities and other healthcare properties are benefiting from demographic and economic trends, specifically the aging of the U.S. population whereby Americans aged 65 years old and older are expected to increase from 47.8 million in 2015 to 79.2 million in 2035 *(source: U.S. Census Bureau 2014 National Population Projections)*, and the increasing demand for care for seniors outside of their homes as well as the need for cost efficient care. As a result of these demographic trends, we expect healthcare costs to increase at a faster rate than the available funding from both private sources and government-sponsored healthcare programs. Healthcare spending in the U.S. is projected to increase from $2.6 trillion in 2010 to $4.1 trillion in 2020 (*source: CMS*) and as healthcare costs increase, insurers, individuals and the U.S. government are pursuing lower cost options for healthcare, and senior housing facilities, such as ALF, MCF, SNF and ILF, are generally more cost effective than higher acuity healthcare settings, such as short or long-term acute-care hospitals, in-patient rehabilitation facilities and other post-acute care settings. For example, 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.

Our skilled nursing facility operators and some of our assisted living tenants may receive a portion of their revenues from governmental payors, primarily Medicare and Medicaid. Changes in reimbursement rates and limits on the scope of services reimbursed to skilled nursing facilities could have a material impact on the operators' liquidity and financial condition. On July 29, 2016, the Centers for Medicare and Medicaid Services, or CMS, issued its final rule for fiscal year 2017 stating, effective October 1, 2016, a net increase of 2.4% to Medicare reimbursement rates for skilled nursing facilities. Further rules and regulatory changes, if implemented, that are being proposed by the federal government to improve quality of care and control healthcare spending may affect reimbursement and increase operating costs to our operators and tenants as they will be required to participate in order to continue to access Medicare and Medicaid funding. The government has also proposed further reimbursement changes via managed care and pooled funding in order to attempt to control cost and share reimbursement risk with healthcare providers. However, these healthcare reform initiatives and the healthcare regulatory framework in general may be impacted by the results of the recent U.S. presidential election. We continue to monitor federal and state reimbursement programs and assess any impact that changes in the political environment may have on reimbursement levels or the timing of payments and the ability of our tenants/operators to meet their payment obligations.

Despite the growth in the industry and favorable market conditions and demographics, economic uncertainty may have a negative impact, weakening the market's fundamentals and ultimately reducing a tenant's/operator's ability to make rent payments in accordance with the contractual terms of the lease, as well as the possibility for reduced income for our operating investments. In addition, increased development and competitive pressures may have an impact on some of our assets. Although senior housing average occupancy has remained relatively stable since 2014 at approximately 90% *(source: NIC MAP 4Q16 Data Release Webinar & Discussion)*, to the extent that occupancy and market rental rates decline, property-level cash flow could be negatively affected

as existing leases renew at lower rates and over longer periods of time and decreased cash flow in turn could impact 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, demographic and other market dynamics continue to attract new investors to the sector. The compelling supply and demand fundamentals that are driven by the increasing need for healthcare services by an aging population and the ongoing consolidation of the fragmented nature of senior housing real estate ownership have created attractive investment opportunities for investors and thus, merger and acquisition activity within the sector continues to be strong.

Our Strategy

Our primary business objectives are to make investments in our targeted assets that we expect will generate attractive risk-adjusted returns, stable cash flow for distributions and provide downside protection to our stockholders. We will 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 will continue to identify strategic development opportunities for our existing and future investments that may involve replacing, converting or renovating facilities in our portfolio which, in turn, would allow us to provide an optimal mix of services and enhance the overall value of our assets. We believe that our Advisor and its affiliates have a platform that derives a potential 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. In addition, we believe that such platform, and our Advisor's and its affiliates' capabilities, will be strengthened and enhanced as a result of the mergers of our Sponsor, Colony and NorthStar Realty as discussed above. We believe that our targeted investment types are complementary to each other due to 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 believe that mid-acuity senior housing facilities provide an opportunity to generate attractive risk-adjusted returns. Mid-acuity senior housing facilities benefit from positive demographic and economic trends and 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 in some other healthcare settings.

We began raising capital in 2013 and completed our Initial Offering on February 2, 2015 and our Follow-on Offering on January 19, 2016. We raised total gross proceeds of $1.9 billion including $143.6 million in DRP proceeds from inception through March 22, 2017. Since the successful completion of our Offering, we have only been raising new equity through our DRP.

The following table presents our investment activity for the year ended December 31, 2016 and from inception through December 31, 2016, adjusted for acquisitions through March 24, 2017 (dollars in thousands):

	Year Ended December 31, 2016	From Inception through March 24, 2017
	Amount[(1)(3)]	Amount[(1)(2)(3)]
Investment Type:		
Real estate equity	$ 635,176	$ 3,410,958
Real estate debt	—	220,887
Healthcare-related securities	57,514	57,514
Total	$ 692,690	$ 3,689,359

(1) Includes initial purchase price, including deferred costs and other assets, and may be adjusted upon completion of the final purchase price allocation. For Healthcare-related securities, represents the principal amount of the security. Refer to Note 6. "Variable Interest Entities" of Part II, Item 8. "Financial Statements and Supplementary Data" for further detail.

(2) Includes the (i) acquisition of additional senior housing and skilled nursing facilities in the Trilogy portfolio and (ii) the Bonaventure and Oak Cottage acquisitions, which closed in February 2017. Refer to "Recent Developments" for further detail.

(3) Includes our proportionate interest in real estate held through joint ventures of $1.4 billion as of December 31, 2016.

Critical Accounting Policies

Principles of Consolidation

Our consolidated financial statements include the accounts of us, our operating partnership and our consolidated subsidiaries. We consolidate variable interest entities, or VIEs, 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 each investment or financing is 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.

Investing VIEs

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

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

As of December 31, 2016, we held Class B certificates in an Investing VIE for which we have determined we are the primary beneficiary because we have the power to direct the activities that most significantly impact the economic performance of the securitization trust. Our Class B certificates, which represents the retained interest, and related interest income are eliminated in consolidation. In accordance with the Financial Accounting Standards Board, or FASB Accounting Standards Codification, or ASC 810, *Consolidation,* the assets, liabilities (obligations to the certificate holders of the securitization trust, less our retained interest from the Class B certificates of the securitization), income and expense of the entire Investing VIE are presented in our consolidated financial statements. In summary, we legally own the Class B certificates only. However, accounting principles generally accepted in the United States, or U.S. GAAP, requires us to gross up our consolidated financial statements to reflect the entire securitization trust. Regardless of the gross-up, our consolidated financial statements of operations reflects the net income attributable to our retained interest in the Class B certificates. Refer to Note 6. "Healthcare-Related Securities" of Part II, Item. 8 "Financial Statements and Supplementary Data" for further detail.

We may and have elected the fair value option for the initial recognition of the assets and liabilities of our consolidated Investing VIEs. Interest income and interest expense associated with these VIEs will be recorded separately on the consolidated statements of operations. We will separately present the assets and liabilities of our consolidated Investing VIEs as "Senior housing mortgage loans held in a securitization trust, at fair value" and "Senior housing mortgage obligations issued by a securitization trust, at fair value", respectively, on our consolidated balance sheets. Refer to Note 12. "Fair Value" of Part II, Item. 8 "Financial Statements and Supplementary Data" for further detail.

We have adopted guidance issued by the FASB, allowing us to measure both the financial assets and liabilities of a qualifying collateralized financing entity, or CFE, such as our Investing VIEs, using the fair value of either the CFE's financial assets or financial liabilities, whichever is more observable. As the liabilities of our Investing VIE are marketable securities with observable trade data, their fair value is more observable and will be referenced to determine the fair value for assets of our Investing VIE. Refer to section "Fair Value Option" below for further discussion.

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 or through a simple majority vote.

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

A non-controlling, unconsolidated ownership interest in an entity may be accounted for using the equity or cost method, and for either method, we may elect the fair value option. We may account for an investment that does not qualify for equity method accounting using the cost method if we determine that we do not have significant influence.

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 record as an expense certain acquisition costs and fees associated with consolidated investments deemed to be business combinations and capitalize these costs for investments deemed to be acquisitions of an asset, including an equity method investment.

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 would be recorded as a reduction of cost of the investment.

Fair Value Option

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

We have elected the fair value option to account for the eligible financial assets and liabilities of our consolidated Investing VIEs in order to mitigate potential accounting mismatches between the carrying value of the instruments and the related assets and liabilities to be consolidated. We have adopted guidance issued by the FASB, allowing us to measure both the financial assets and liabilities of a qualifying CFE that we consolidate using the fair value of either the CFE's financial assets or financial liabilities, whichever is more observable.

Operating Real Estate

We account for purchases of operating real estate that qualify as business combinations using the acquisition method, where the purchase price is allocated to tangible assets such as land, building, furniture and fixtures, improvements and other identified intangibles such as in place leases, goodwill and above or below market mortgages assumed, as applicable. Major replacements and betterments which improve or extend the life of the asset are capitalized and depreciated over their useful life. Ordinary repairs and maintenance are expensed as incurred. Operating real estate is carried at historical cost less accumulated depreciation. Operating real estate is depreciated using the straight-line method over the estimated useful life of the assets. 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.

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

Real Estate Debt Investments

Real estate debt investments are generally intended to be held to maturity and, accordingly, are carried at cost, net of unamortized loan fees, premium, discount and unfunded commitments. Debt investments that are deemed to be impaired are carried at amortized cost less a 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 fair value.

Healthcare-Related 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. As of December 31, 2016, we held Class B certificates of a securitization trust, which represents our retained interest in the securitization trust, which we consolidate under U.S. GAAP. Refer to Note 6. "Healthcare-Related Securities", of Part II, Item 8. "Financial Statements and Supplementary Data" for further discussion.

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 our 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.

Financial assets and liabilities recorded at fair value on a recurring basis are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

As discussed above, we elected the fair value option for the financial assets and liabilities of our consolidated Investing VIE. The Investing VIE is "static", that is no reinvestment is permitted and there is very limited active management of the underlying assets. We have determined that the fair value of the liabilities of the Investing VIE is more observable utilizing factors such as future cash flows, market transaction information, ratings, subordination levels and current market spread and pricing information where available. Quoted market prices are used when this debt trades as an asset. The quotes are not adjusted. The financial assets of the Investing VIE are not readily marketable and their fair value measurement requires information that may be limited in availability. Our methodology for valuing these assets does not value the individual assets of the Investing VIE, but rather uses the value of the VIE liabilities as an indicator of the fair value of VIE assets as a whole, we have determined that our valuations of VIE assets in their entirety should be classified in Level 3 of the fair value hierarchy.

To determine the fair value of liabilities of the Investing VIE, we maintain a comprehensive quarterly process that includes a valuation committee comprised of senior members of the investment and accounting teams that is designed to enable management to ensure the prices used are representative of fair value and the instruments are properly classified pursuant to the fair value hierarchy.

Initially, a member of the investment team on the valuation committee reviews the prices at quarter end to ensure current market conditions are fairly presented. The investment team is able to assess these values because they are actively engaged in the market, reviewing bid lists, recent sales and frequently have discussions with various banks and other financial institutions regarding the state of the market. We then perform a variety of analyses to ensure the quotes are in a range which we believe to be representative of fair value and to validate the quotes obtained and used in determining the ultimate value used in the financial statements. We review significant changes in fair value for individual instruments, both positive and negative, from the prior period. We perform back testing on any securities sold to validate the quotes used for the prior quarter. Where multiple quotes are available, we evaluate any large variance between the high and low price. We obtain any available market data that provides insight into the price through recent or comparable security trades, multiple dealer bids and other pertinent information. This data may be available through the dealer or based on data directly available to us. If as part of any of these processes, we are aware of data which we believe better supports the fair value, we challenge the quote provided by the dealer. Any discrepancy identified from our processes are reviewed and resolved. The valuation committee approves the final prices. We believe these procedures are designed to enable us to estimate fair value.

Once we determine fair value of the liabilities of the Investing VIE, we review to ensure the instrument is properly classified pursuant to the fair value hierarchy consistent with U.S. GAAP through our understanding of the valuation methodologies used by the pricing service via discussion with the dealer and review of any documentation describing its valuation methodology.

Generally, when fair value is based on quotes from dealers, we believe, based on our analysis, such quotes are based on observable inputs and are therefore classified as Level 2. Where the price is based on either a single dealer quote or an internal pricing model, we generally consider such price to be based on less observable data and therefore classify such instruments as Level 3.

Revenue Recognition

Operating Real Estate

Rental income includes rental and escalation income from operating real estate and is derived from leasing of space to various types of tenants and healthcare operators. Rental revenue recognition commences when the tenant takes legal possession of the leased space and the leased space is substantially ready for its intended use. The leases are for fixed terms of varying length and generally provide for rentals and expense reimbursements to be paid in monthly installments. Rental income from leases is recognized on a straight-line basis over the term of the respective leases. The excess of rents recognized over amounts contractually due pursuant to the underlying leases are included in unbilled rent receivable on the consolidated balance sheets. We amortize any tenant inducements as a reduction of revenue utilizing the straight-line method over the term of the lease. Escalation income represents revenue from tenant/operator leases which provide for the recovery of all or a portion of the operating expenses and real estate taxes paid by us on behalf of the respective property. This revenue is recognized in the same period as the expenses are incurred.

We also generate operating income from operating healthcare properties. Revenue related to operating healthcare properties includes resident room and care charges and other resident service charges. Rent is charged and revenue is recognized when such services are provided, generally defined per their resident agreement as the date upon which a resident occupies a room or uses the services and is recorded in resident fee income in the consolidated statements of operations.

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

Real Estate Debt Investments

Interest income is recognized on an accrual basis and any related premium, discount, origination costs and fees are amortized over the life of the investment using the effective interest method. The amortization is reflected as an adjustment to interest income in 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.

Healthcare-Related Securities

Interest income is recognized using the effective interest method with any premium or discount amortized or accreted through earnings based on expected cash flow through the expected maturity date of the security. Changes to expected cash flow may result in a change to the yield which is then applied retrospectively for high-credit quality securities that cannot be prepaid or

otherwise settled in such a way that the holder would not recover substantially all of the investment or prospectively for all other securities to recognize interest income.

Credit Losses and Impairment on Investments

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, together with asset specific and other factors. To the extent an impairment has occurred, the loss is measured as the excess of the carrying value of the property over the estimated fair value and recorded in impairment on operating real estate in our consolidated statements of operations. As of December 31, 2016, we did not have any impaired operating real estate.

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. As of December 31, 2016 and 2015, we had an allowance for doubtful accounts of $0.6 million and an immaterial amount, respectively.

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 all 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. Interest accrued and not collected will be reversed against interest income. A loan is written off when it is no longer realizable and/or legally discharged. As of December 31, 2016, we did not have any impaired real estate debt investments.

Investments in Unconsolidated Ventures

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

Healthcare-Related 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 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 our 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. 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 Financial Accounting Standards Board, or 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. The accounting standard update will replace most of the existing revenue recognition guidance currently promulgated by U.S. GAAP. In July 2015, the FASB decided to delay the effective date of the new revenue standard by one year. The effective date of the new revenue standard for us will be January 1, 2018. Leases are specifically excluded from this guidance and will be governed by the applicable lease codification; however, this update may have implications in certain variable payment terms included in lease agreements and in sale and leaseback transactions. We are currently assessing the potential effect of the adoption on our consolidated financial statements and related disclosures, as applicable.

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. We adopted this guidance in the first quarter 2016 and determined our Operating Partnership is considered a VIE. We are the primary beneficiary of the VIE, the VIE's assets can be used for purposes other than the settlement of the VIE's obligations and our partnership interest is considered a majority voting interest. As such, this standard resulted in the identification of additional VIEs, however it did not have a material impact on our consolidated financial position or results of operations. Refer to Note 6, "Variable Interest Entities", for further discussion.

In January 2016, the FASB issued an accounting update that addressed certain aspects of accounting and disclosure requirements of financial instruments, including the requirement that equity investments with readily determinable fair value be measured at fair value with changes in fair value recognized in results of operations. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. We do not have any equity investments with readily determinable fair value recorded as available-for-sale. We do not believe that this guidance will have a material impact on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued an accounting update that sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The update requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. Additionally, the new update will require that lessees and lessors capitalize, as initial direct costs, only those costs that are incurred due to the execution of a lease. The new guidance is to be applied using a modified retrospective approach at the beginning of the earliest comparative period in the financial statements and is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently assessing the potential effect the adoption of this guidance will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued guidance which eliminates the requirement for an investor to retroactively apply the equity method when its increase in ownership interest (or degree of influence) in an investee triggers equity method accounting. The update requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment become qualified for equity method accounting. The update should be applied prospectively upon their effective date to increases in the level of ownership interests or degree of influence that results in the adoption of the equity method. The guidance is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. We will adopt the new guidance prospectively on January 1, 2017 and do not expect the adoption of this standard to have a material impact on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued guidance which amends several aspects of the accounting for equity-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statements

of cash flows. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2016. We will adopt the new guidance prospectively on January 1, 2017 and do not expect the adoption of this standard to have a material impact on our consolidated financial statements and related disclosures.

In June 2016, the FASB issued guidance that changes the impairment model for certain financial instruments by requiring companies to recognize an allowance for expected losses, rather than incurred losses as required currently by the incurred loss approach. The guidance will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases and off-balance-sheet credit exposures (e.g., loan commitments). The new guidance is effective for reporting periods beginning after December 15, 2019 and will be applied as a cumulative adjustment to retained earnings as of the effective date. We are currently assessing the potential effect the adoption of this guidance will have on our consolidated financial statements and related disclosures.

In August 2016, the FASB issued guidance that makes eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The new guidance requires adoption on a retrospective basis unless it is impracticable to apply, in which case the company would be required to apply the amendments prospectively as of the earliest date practicable. We do not believe that this guidance will have a material impact on our consolidated financial statements and related disclosures.

In November 2016, the FASB issued guidance which requires entities to show the changes in the total of cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. Entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The guidance is effective for reporting periods beginning after December 15, 2017 and will be applied retrospectively to all periods presented. We do not believe that this guidance will have a material impact on our consolidated financial statements and related disclosures.

In January 2017 the FASB issued guidance to clarify the definition of a business under ASC 805, *Business Combinations*. This new standard clarifies the definition of a business and provides a screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The amendments in this update will be applied on a prospective basis. We expect that acquisitions of real estate or in-substance real estate will not meet the revised definition of a business because substantially all of the fair value is concentrated in a single identifiable asset or group of similar identifiable assets (i.e. land, buildings, and related intangible assets).

In January 2017, the FASB issued guidance which removes Step 2 from the goodwill impairment test. The guidance is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. We are currently assessing the potential effect the adoption of this guidance will have on our consolidated financial statements and related disclosures.

Results of Operations

Comparison of the Year Ended December 31, 2016 to 2015 (dollars in thousands):

	Years Ended December 31,		Increase (Decrease)	
	2016	2015	Amount	%
Property and other revenues				
Resident fee income	$ 102,915	$ 63,056	$ 39,859	63.2 %
Rental income	132,108	28,456	103,652	364.3 %
Other revenue	1,585	1,941	(356)	(18.3)%
Total property and other revenues	236,608	93,453	143,155	153.2 %
Net interest income				
Interest income on debt investments	17,720	17,763	(43)	(0.2)%
Interest income on mortgage loans held in a securitized trust	5,022	—	5,022	100.0 %
Interest expense on mortgage obligations issued by a securitization trust	3,772	—	3,772	100.0 %
Net interest income	18,970	17,763	1,207	6.8 %
Expenses				
Property operating expenses	129,954	45,773	84,181	183.9 %
Interest expense	50,243	17,617	32,626	185.2 %
Other expenses related to securitization trust	765	—	765	100.0 %
Transaction costs	2,204	5,765	(3,561)	(61.8)%
Asset management and other fees-related party	45,092	33,385	11,707	35.1 %
General and administrative expenses	24,843	20,213	4,630	22.9 %
Depreciation and amortization	81,786	27,038	54,748	202.5 %
Total expenses	334,887	149,791	185,096	123.6 %
Other income (loss)				
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net	298	—	298	100.0 %
Realized gain (loss) on investments and other	600	(721)	1,321	(183.2)%
Gain (loss) on consolidation of unconsolidated venture (refer to Note 3)	6,408	—	6,408	100.0 %
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	(72,003)	(39,296)	(32,707)	83.2 %
Equity in earnings (losses) of unconsolidated ventures	(62,175)	(49,046)	(13,129)	26.8 %
Income tax benefit (expense)	(7,104)	5,598	(12,702)	(226.9)%
Net income (loss)	$ (141,282)	$ (82,744)	$ (58,538)	70.7 %

Revenues

Resident Fee Income

Resident fee income increased $39.9 million, as a result of our RIDEA properties included in the acquisition of the Watermark Fountains portfolio contributing a full year of rental income in 2016 versus seven months in 2015, and an increase in occupancy for all Watermark Fountains RIDEA properties for the year ended 2016 as compared to the same period in 2015.

Rental Income

Rental income increased $103.7 million, primarily as a result of the acquisition of the remaining 60.0% equity interest in the Winterfell portfolio in March 2016, which is now 100% owned and consolidated in our statements of operations, as well as the net lease properties included in the acquisition of the Watermark Fountains portfolio, contributing a full year of rental income in 2016 versus seven months in 2015 from the date of acquisition in June 2015.

Net Interest Income

Net interest income increased $1.2 million, primarily as a result of our investment in the Class B certificates of a securitization trust in October 2016. This increase was offset by a decrease in interest income from debt investments resulting from the repayment of one debt investment in 2015 and three debt investments in the fourth quarter of 2016 offset by the origination of one new debt investment in July 2015.

Expenses

Property Operating Expenses

Property operating expenses increased $84.2 million, primarily as a result of the acquisition of the remaining 60% equity interest in the Winterfell portfolio in March 2016 and the RIDEA properties in the Watermark Fountains portfolio acquired in June 2015.

Interest Expense

Interest expense increased $32.6 million, primarily as a result of the mortgage notes payable assumed in connection with the acquisition of the Winterfell portfolio in March 2016 and the Watermark Fountains portfolio in June 2015.

Transaction Costs

Transaction costs primarily represent professional fees associated with new investments. Transaction costs for the year ended December 31, 2016 are primarily a result of the acquisition of the remaining 60% equity interest in the Winterfell portfolio in March 2016 and professional fees incurred to finalize certain purchase price allocations related to 2016 and 2015 investment activities. Transaction costs for the year ended December 31, 2015 are a result of costs associated with the acquisition of the Watermark Fountains portfolio in June 2015.

Asset Management and Other Fees - Related Party

Asset management and other fees - related party increased $11.7 million, as a result of an increase in invested assets, which increased to $3.3 billion as of December 31, 2016 from $1.9 billion as of December 31, 2015. This increase was partially offset by a decrease in acquisition fees related to a lower level of investment activity during 2016.

General and Administrative Expenses

General and administrative expenses are incurred at the corporate level and include auditing and professional fees, director fees, organization and other costs associated with operating our business. General and administrative expenses increased $4.6 million, primarily as a result of increased operating costs of a larger investment portfolio during 2016 and $0.7 million of general and administrative expenses related to the securitization trust that U.S. GAAP requires us to consolidate.

Depreciation and Amortization

Depreciation and amortization expense increased $54.7 million, primarily as a result of the acquisition of the remaining 60% equity interest in the Winterfell portfolio in March 2016 and the full year impact of the June 2015 acquisition of the Watermark Fountains portfolio.

Other Income (Loss)

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

Unrealized gain of $0.3 million on senior housing mortgage loans and debt held in a securitization trust was attributable to the change in the fair value of our investment in a Freddie Mac securitization in October 2016.

Realized Gain (Loss) on Investments and Other

Realized gain on investments and other of $0.6 million for the year ended December 31, 2016 resulted from the sale of three Remainder Interests in the Watermark Fountains portfolio. Realized loss on investments and other of $0.7 million for the year ended December 31, 2015 was a result of a loss on the termination of our credit facility, partially offset by a gain on the sale of one Remainder Interest in the Watermark Fountains portfolio.

Gain (loss) on Consolidation of Unconsolidated Venture

The gain on consolidation of unconsolidated venture of $6.4 million was attributable to an adjustment to the carrying value of our equity investment in the Winterfell portfolio as a result of the acquisition of the remaining equity interest in the portfolio in March 2016.

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 increased $13.1 million primarily as a result of depreciation and amortization expense from underlying real estate portfolios acquired via two separate joint ventures during the second half of 2015. Excluding depreciation and amortization of $44.3 million for all unconsolidated ventures, equity in earnings of unconsolidated ventures increased $31.1 million primarily as a result of operating income from investments in the Espresso and Trilogy joint ventures during the second half of 2015 and non-recurring transaction costs incurred in 2015 related to the acquisition of (i) a 40% interest in the Winterfell portfolio, (ii) the Espresso joint venture, and (iii) the Trilogy joint venture.

Income Tax Benefit (Expense)

The income tax benefit (expense) for the years ended December 31, 2016 and 2015 was $(7.1) million and $5.6 million, respectively, related to our RIDEA properties, which operate through a TRS structure. In the first quarter of 2016, we recorded a full valuation allowance of $7.0 million on our deferred tax asset as we believe that it is more likely than not to be unrealized. As of December 31, 2016, there are no changes to our valuation allowance.

Comparison of the Year Ended December 31, 2015 to 2014 (dollars in thousands):

	Years Ended December 31,		Increase (Decrease)	
	2015	2014	Amount	%
Property and other revenues				
Resident fee income	$ 63,056	$ 14,511	$ 48,545	334.5%
Rental income	28,456	8,038	20,418	254.0%
Other revenue	1,941	—	1,941	100.0%
Total property and other revenues	93,453	22,549	70,904	314.4%
Interest income on debt investments	17,763	7,490	10,273	137.2%
Expenses				
Property operating expenses	45,773	10,810	34,963	323.4%
Interest expense	17,617	2,981	14,636	491.0%
Transaction costs	5,765	3,405	2,360	69.3%
Asset management and other fees-related party	33,385	8,220	25,165	306.1%
General and administrative expenses	20,213	4,418	15,795	357.5%
Depreciation and amortization	27,038	4,291	22,747	530.1%
Total expenses	149,791	34,125	115,666	338.9%
Other income (loss)				
Realized gain (loss), net	(721)	(156)	(565)	362.2%
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	(39,296)	(4,242)	(35,054)	826.4%
Equity in earnings (losses) of unconsolidated ventures	(49,046)	(12,127)	(36,919)	304.4%
Income tax benefit (expense)	5,598	1,390	4,208	302.7%
Net income (loss)	$ (82,744)	$ (14,979)	$ (67,765)	452.4%

Revenues

Resident Fee Income

Resident fee income increase of $48.5 million was primarily driven by RIDEA properties acquired in 2015.

Rental Income

Rental income increase of $20.4 million was mainly attributable to the net lease properties included in the acquisition of the Watermark Fountains portfolio in June 2015.

Other Revenue

Other revenue of $1.9 million was related to a commitment fee received for a real estate debt investment.

Interest Income

Interest income increase of $10.3 million was generated by new investments in our real estate debt segment in 2015.

Expenses

Property Operating Expenses

Property operating expenses increase of $35.0 million was primarily attributable to RIDEA properties acquired in 2015.

Interest Expense

Interest expense increase of $14.6 million was attributable to mortgage notes payable associated with new investments in our real estate equity segment.

Transaction Costs

Transaction costs primarily represented expenses such as professional fees associated with new real estate equity investments. Transaction costs increase of $2.4 million was related to a higher level of acquisition activity in our real estate equity segment in 2015.

Asset Management and Other Fees - Related Party

Asset management and other fees - related party increase of $25.2 million was driven by heightened investment activity in 2015.

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 $15.8 million was primarily attributable to increased operating costs from greater investment activity in 2015.

Depreciation and Amortization

Depreciation and amortization expense increase of $22.7 million was primarily related to new acquisitions in our real estate equity segment in 2015.

Other Income (Loss)

Realized Gain (Loss), net

Realized loss increase of $0.6 million related to the write-off of deferred financing costs resulting from the termination of our Term Loan Facility, which was partially offset by the gain on sale of three remainder interest units in our Watermark Fountains portfolio.

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

Equity in Earnings (Losses) of Unconsolidated Ventures

Unconsolidated ventures incurred losses of $49.0 million related to 2015 acquisitions in our real estate equity segment in 2015. The losses were mainly driven by certain transaction costs and fees incurred in connection with acquiring joint venture investments. For the year ended December 31, 2015, our unconsolidated ventures generated operating income of $24.0 million, excluding $73.0 million of depreciation and amortization expense and transaction costs.

Income Tax Benefit (Expense)

The income tax benefit for the year ended December 31, 2015 represents a net benefit of $5.6 million related to our RIDEA properties, which operate through our TRS. The income tax net benefit for the year ended December 31, 2014 was $1.4 million related to our senior housing facilities operating under a RIDEA structure.

Liquidity and Capital Resources

We require capital to fund our investment activities, operating expenses and to make distributions. We obtained the capital required to acquire and manage our healthcare real estate portfolio and conduct our operations from the proceeds of our Offering. We do not currently intend to conduct any future offerings, other than through our DRP. We may access additional capital from secured or unsecured financings from banks and other lenders, net proceeds from asset repayments and sales and from any undistributed funds from our operations. As of March 24, 2017, we had $144.5 million of investable cash.

Offering

From inception through March 22, 2017, we have raised total gross proceeds of $1.9 billion, including $143.6 million in DRP proceeds.

We are no longer raising capital from our Offering and we have invested a substantial majority of the net proceeds from our Offering. Since the successful completion of our Offering, we have only been raising new equity capital through our DRP, and as such, do not expect significant new investment activity. However, as investments are repaid or sold, we expect that those proceeds will be reinvested. Our inability to invest these proceeds could reduce our net income and limit our ability to make distributions. Further, we have certain fixed direct and indirect operating expenses, including certain expenses as a publicly-registered REIT. We expect our net income from operations will be sufficient to cover such expenses.

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, excluding indirect leverage held through our unconsolidated joint venture investments and any securitized mortgage obligations to third parties, is 75% of our assets, other than intangibles, before deducting loan loss reserves, other non-cash reserves and depreciation and as of December 31, 2016, our leverage was 51.9%, which we expect to remain consistent going forward.

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 included 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. Total selling commissions, dealer manager fees and reimbursable organization and offering costs through the completion of our Offering were 10.4% of total proceeds raised from our Offering, below the 15.0% maximum allowed. We expect to continue to make payments to our Advisor, or its affiliates, as applicable, in connection with the selection and acquisition or origination 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. On June 30, 2015, we renewed our advisory agreement with our Advisor for an additional one-year term on terms identical to those previously in effect. We renewed our advisory agreement with our Advisor on June 30, 2016 for an additional one-year term on terms identical to those previously in effect.

Cash Flows

The following presents a summary of our consolidated statements of cash flows for the years ended December 31, 2016, 2015 and 2014 (dollars in thousands):

	Years Ended December 31,				
Cash flow provided by (used in):	**2016**	**2015**	**2014**	**2016 vs. 2015 Change**	**2015 vs. 2014 Change**
Operating activities	$ 3,972	$ (8,563)	$ (1,920)	$ 12,535	$ (6,643)
Investing activities	(74,331)	(1,069,333)	(581,879)	995,002	(487,454)
Financing activities	(60,768)	1,164,453	805,934	(1,225,221)	358,519
Net increase (decrease) in cash	$ (131,127)	$ 86,557	$ 222,135	$ (217,684)	$ (135,578)

Year Ended December 31, 2016 Compared to December 31, 2015

Operating Activities

Net cash provided by operating activities was $4.0 million for the year ended December 31, 2016 compared to net cash used in operating activities of $8.6 million for the year ended December 31, 2015. The increase of $12.5 million in net cash provided by

operating activities was primarily related to earnings from new investments, offset by an increase in fees paid to our Advisor for the management of our investments, and other general and administrative expenses.

Investing Activities

Net cash used in investing activities was $74.3 million for the year ended December 31, 2016 compared to $1.1 billion for the year ended December 31, 2015. The decrease of $995.0 million was primarily related to lower real estate equity and debt investment activity for the year ended December 31, 2016 compared to the year ended December 31, 2015.

Financing Activities

Net cash used in financing activities was $60.8 million for the year ended December 31, 2016 compared to net cash provided by financing activities of $1.2 billion for the year ended December 31, 2015. The decrease of $1.2 billion was primarily related to lower borrowings due to less investment activity and the receipt of fewer proceeds from the issuance of common stock since our Offering ended in January 2016. Net cash used in financing activities for the year ended December 31, 2016 was primarily related to distributions paid on, and redemption of, our common stock, offset by issuance of common stock under our DRP.

Year Ended December 31, 2015 Compared to December 31, 2014

Operating Activities

Net cash used in operating activities was $8.6 million for the year ended December 31, 2015 compared to $1.9 million for the year ended December 31, 2014. The $6.6 million increase in net cash used in operating activities was primarily related an increase in fees paid to our Advisor for the management of our investments resulting from a substantial increase in investment activity made during the period and other general and administrative expenses, transaction costs and interest expense due to additional borrowings on mortgage notes. This increase was partially offset by the net income generated from our real estate equity and debt investments.

Investing Activities

Net cash used in investing activities was $1.1 billion for the year ended December 31, 2015 compared to $581.9 million for the year ended December 31, 2014. The $487.5 million increase in net cash used in investing activities was primarily related to real estate equity investments and investments in unconsolidated ventures.

Financing Activities

Net cash provided by financing activities was $1.2 billion for the year ended December 31, 2015 compared to $805.9 million for the year ended December 31, 2014. The $358.5 million increase in net cash provided by financing activities is primarily related to new borrowings in connection with new acquisitions and net proceeds from the issuance of common stock through our Offering, partially offset by distributions paid on, and redemption of, our common stock and payment of deferred financing costs.

Contractual Obligations and Commitments

The following table presents contractual obligations and commitments as of December 31, 2016 (dollars in thousands):

	Payments Due by Period[1]				
		2017	2018 - 2019	2020 - 2021	
	Total	Less than 1 year	1-3 years[5]	3-5 years[6]	More than 5 years
Mortgage notes payable	$ 1,236,221	$ 3,254	$ 55,289	$ 80,325	$ 1,097,353
Estimated interest payments[2]	348,525	50,241	99,313	92,905	106,066
Total[3][4]	$ 1,584,746	$ 53,495	$ 154,602	$ 173,230	$ 1,203,419

(1) Excludes the interest and principal obligations related to the securitization trust, due to the fact that these obligations do not have any recourse to us.
(2) Estimated interest payments are based on the weighted average life of the borrowings. Applicable LIBOR rate plus the respective spread as of December 31, 2016 was used to estimate payments for our floating-rate borrowings.
(3) Excludes construction related and other commitments for future development.
(4) Subject to certain restrictions and limitations, our Advisor is responsible for managing our affairs on a day-to-day basis and for identifying, originating, acquiring and 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.
(5) Total includes $61.0 million and $93.6 million for years ended December 31, 2018 and 2019, respectively.
(6) Total includes $69.9 million and $103.4 million for years ended December 31, 2020 and 2021, respectively.

In addition, our joint venture partners may be entitled to call additional capital under the governing documents of our joint ventures and certain of our tenants/operators/managers may require us to fund capital projects under our leases or management agreements.

Although we may not be obligated to fund such capital contributions or capital projects, we may be subject to adverse consequences for any such failure to fund.

Off-Balance Sheet Arrangements

As of December 31, 2016, we are not dependent on the use of any off-balance sheet financing arrangements for liquidity. We have made investments in unconsolidated ventures. Refer to Note 4, "Investments in Unconsolidated Ventures" in Item 8. "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.

Related Party Arrangements

Advisor

In connection with the completion of NorthStar Realty's spin-off of its asset management business into NSAM, 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. In June 2015, our advisory agreement was renewed for an additional one-year term commencing on June 30, 2015 with terms identical to those in effect through June 30, 2015. In June 2016, our advisory agreement was renewed for an additional one-year term commencing on June 30, 2016, with terms identical to those in effect through June 30, 2016. 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, acquiring, originating and asset managing investments on our behalf. Our Advisor may delegate certain of its obligations to affiliated entities, which may be organized under the laws of the United States or foreign jurisdictions. References to our Advisor include our Advisor and any such affiliated entities. For such services, to the extent permitted by law and regulations, our Advisor receives fees and reimbursements from us. Below is a description and table of the fees and reimbursements incurred to our Advisor.

Fees to Advisor

Asset Management Fee

Our Advisor 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).

Incentive Fee

Our Advisor is entitled to receive distributions equal to 15.0% of our net cash flows, whether from continuing operations, repayment of loans, disposition of assets or otherwise, but only after stockholders have received, in the aggregate, cumulative distributions equal to their invested capital plus a 6.75% cumulative, non-compounded annual pre-tax return on such invested capital.

Acquisition Fee

Our Advisor also receives fees for providing structuring, diligence, underwriting advice and related services in connection with real estate acquisitions equal to 2.25% of each real estate property acquired by us, including acquisition costs and any financing attributable to an equity investment (or the proportionate share thereof in the case of an indirect equity investment made through a joint venture or other investment vehicle) and 1.0% of the amount funded or allocated by us to acquire or originate debt investments, including acquisition costs and any financing attributable to such investments (or the proportionate share thereof in the case of an indirect investment made through a joint venture or other investment vehicle). An acquisition fee incurred related to an equity investment is generally expensed as incurred. A fee paid to our Advisor in connection with the acquisition of an equity or debt investment in an unconsolidated joint venture is generally included in investments in unconsolidated ventures on the consolidated balance sheets when we do not elect the fair value option for an investment. However, when we elect the fair value option for an investment we expense the acquisition fee. A fee paid to our Advisor in connection with 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.

Disposition Fee

For substantial assistance in connection with the sale of investments and based on the services provided, as determined by our independent directors, our Advisor receives a disposition fee of 2.0% of the contract sales price of each property sold and 1.0% of the contract sales price of each debt investment sold. We do not pay a disposition fee upon the maturity, prepayment, workout, modification or extension of a debt investment unless there is a corresponding fee paid by our borrower, in which case the disposition fee is the lesser of: (i) 1.0% of the principal amount of the debt investment prior to such transaction; or (ii) the amount of the fee

paid by our borrower in connection with such transaction. If we take ownership of a property as a result of a workout or foreclosure of a debt investment, we will pay a disposition fee upon the sale of such property. A disposition fee from the sale of an investment is generally expensed and included in asset management and other fees - related party in our consolidated statements of operations. A disposition fee for a debt investment incurred in a transaction other than a sale is included in debt investments, net on our consolidated balance sheets and is amortized to interest income over the life of the investment using the effective interest method.

Reimbursements to Advisor

Operating Costs

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

Organization and Offering Costs

Our Advisor was 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 did not expect reimbursable organization and offering costs, including costs incurred in connection with our Follow-on Offering but 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. Based on gross proceeds of $1.7 billion from the Primary Offering, we incurred reimbursable organizational and offering costs, excluding selling commissions and dealer manager fees, of 1.0%, which was less than the 1.5% expected. Our independent directors did not determine that any of the organization and offering costs were unfair and commercially unreasonable.

Dealer Manager

Selling Commissions and Dealer Manager Fees

Pursuant to a dealer manager agreement, we paid our Dealer Manager selling commissions of up to 7.0% of gross proceeds from our Primary Offering, all of which were reallowed to participating broker-dealers. In addition, we paid our Dealer Manager a dealer manager fee of up to 3.0% of gross proceeds from our Primary Offering, a portion of which was 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 tables present the fees and reimbursements incurred to our Advisor and our Dealer Manager for the years ended December 31, 2016 and 2015 and the amount due to related party as of December 31, 2016 and 2015 (dollars in thousands):

Type of Fee or Reimbursement	Financial Statement Location	Due to Related Party as of December 31, 2015	Year Ended December 31, 2016		Due to Related Party as of December 31, 2016
			Incurred	Paid	
Fees to Advisor Entities					
Asset management	Asset management and other fees-related party	$ 22	$ 32,712	$ (32,722)	$ 12
Acquisition[1]	Investments in unconsolidated ventures/Asset management and other fees-related party	378	13,924	(14,236)	66
Disposition[1]	Real estate debt investments, net	—	146	(146)	—
Reimbursements to Advisor Entities					
Operating costs[2]	General and administrative expenses	4	23,670	(23,533)	141
Organization	General and administrative expenses	—	—	—	—
Offering	Cost of capital[3]	39	447	(486)	—
Selling commissions	Cost of capital[3]	—	58	(58)	—
Dealer Manager Fees	Cost of capital[3]	—	25	(25)	—
Total		$ 443	$ 70,982	$ (71,206)	$ 219

(1) Acquisition/disposition fees incurred to our Advisor related to debt investments are generally offset by origination/exit fees paid to us by borrowers if such fees are required from the borrower. Acquisition fees related to equity investments are included in asset management and other fees-related party in our consolidated statements of operations. Acquisition fees related to investments in unconsolidated joint ventures are included in investments in unconsolidated ventures on our consolidated balance sheets. Our Advisor may determine to defer fees or seek reimbursements. From inception through December 31, 2016, the Advisor waived $0.3 million of acquisition fees related to healthcare-related securities.

(2) As of December 31, 2016, our Advisor does not have any unreimbursed operating costs which remain eligible to be allocated to us. For the year ended December 31, 2016, total operating expenses included in the 2%/25% Guidelines represented 1.73% of average invested assets and 87.5% of net loss without reduction for any additions to reserves for depreciation, loan losses or other similar non-cash reserves.

(3) 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, 2016, the ratio of offering costs to total capital raised was 0.8%.

The following tables present the fees and reimbursements incurred to our Advisor and our Dealer Manager for the years ended December 31, 2015 and 2014 and the amount due to related party as of December 31, 2015 and 2014 (dollars in thousands):

Type of Fee or Reimbursement	Financial Statement Location	Due to Related Party as of December 31, 2014	Year Ended December 31, 2015		Due to Related Party as of December 31, 2015
			Incurred	Paid	
Fees to Advisor Entities					
Asset management	Asset management and other fees-related party	$ 6	$ 19,015	$ (18,999)	$ 22
Acquisition[1]	Real estate debt investments, net/Investments in unconsolidated ventures/Asset management and other fees-related party	245	38,449	(38,316)	378
Disposition[1]	Real estate debt investments, net	—	113	(113)	—
Reimbursements to Advisor Entities					
Operating costs[2]	General and administrative expenses	12	19,344	(19,352)	4
Organization	General and administrative expenses	2	—	(2)	—
Offering	Cost of capital[3]	490	5,038	(5,489)	39
Selling commissions	Cost of capital[3]	—	52,080	(52,080)	—
Dealer Manager Fees	Cost of capital[3]	—	23,274	(23,274)	—
Total		$ 755	$ 157,313	$ (157,625)	$ 443

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

(2) As of December 31, 2015, our Advisor had incurred unreimbursed operating costs on our behalf of $7.6 million that were eligible to be allocated to us. For the year ended December 31, 2015, total operating expenses included in the 2%/25% Guidelines represented 2.0% of average invested assets and 66.3% of net loss without reduction for any additions to reserves for depreciation, loan losses or other similar non-cash reserves.

(3) 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, 2015, the ratio of offering costs to total capital raised was 9.8%.

NorthStar Realty Purchase of Common Stock

In January 2015, our board of directors approved an amended and restated distribution support agreement, or our Distribution Support Agreement, extending the term until February 6, 2017. Pursuant to our Distribution Support Agreement, NorthStar Realty, currently a subsidiary of our Sponsor, 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, 2016, including the purchase of shares to satisfy the minimum offering requirement, NorthStar Realty purchased 588,116 shares of our common stock for $5.3 million. As our Follow-on Offering has now been completed, NorthStar Realty has no further obligation to purchase shares under the Distribution Support Agreement.

Investments in Joint Ventures

In May 2014, we, through a general partnership with NorthStar Realty, acquired a 5.6% interest in the Eclipse portfolio, a $1.1 billion healthcare 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 our independent directors.

In December 2014, we, through a general partnership with NorthStar Realty, acquired a 14.3% interest in the Griffin-American portfolio 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 a 43%, as adjusted, ownership interest in AHI and Mr. James F. Flaherty III, a strategic partner of our Sponsor, acquired a 12.3% ownership interest in AHI. AHI is a healthcare-focused real estate investment management firm that co-sponsored and advised Griffin-American, until Griffin-American was acquired by us and NorthStar Realty. In connection with our Sponsor's acquisition of an interest in AHI, AHI provides certain asset management and related services, including property management, to our Advisor,

NorthStar Realty and us. AHI currently provides such services to us with respect to our interest in the Griffin-American portfolio and Winterfell portfolio. Consequently, AHI assists our Advisor in managing the Griffin-American and Winterfell portfolios and may assist with other healthcare assets owned by us in the future.

The Griffin-American joint venture sold 35 MOBs in December 2016 and one MOB in January 2017, within the Griffin-American portfolio for an aggregate $782.5 million. Our proportionate share of net proceeds generated from the sale after repayment of debt totaled $13.5 million, of which $0.5 million was received related to the sale in January 2017. Our proportionate share of realized gains recognized from this sale in 2016 was $1.7 million.

In December 2015, we, through a joint venture with Griffin-American Healthcare REIT III, Inc., or GAHR3, a REIT sponsored and advised by AHI, acquired a 29% interest in the Trilogy portfolio, a $1.2 billion healthcare portfolio and contributed $201.7 million for our interest. The purchase was approved by our board of directors, including all of our independent directors. In June 2016, in accordance with the joint venture agreement, we funded an additional capital contribution of $18.8 million for a total contribution of $220.5 million. The additional funding related to certain business initiatives, including the acquisition of additional senior housing and skilled nursing facilities and repayment of certain outstanding obligations.

In March 2016, we acquired NorthStar Realty's 60.0% interest in a joint venture, or the Winterfell JV, which owned 32 private pay independent living facilities, or the Winterfell portfolio, for a purchase price of $537.8 million, excluding escrows and subject to customary proration and adjustments. The transaction was approved by our board of directors, including all of our independent directors, and the purchase price was supported by an independent third-party appraisal for the Winterfell portfolio. We originally acquired a 40.0% equity interest in the Winterfell JV in May 2015. We accordingly now own 100.0% of the equity in the Winterfell portfolio as of March 2016 and consolidate the portfolio. Prior to March 2016, we accounted for our equity investment in the Winterfell JV as an unconsolidated venture under the equity method. For the three months ended March 31, 2016, we recognized $1.4 million in equity in earnings and received $0.6 million cash distributions.

Origination of Mezzanine Loan

In July 2015, we originated a $75.0 million mezzanine loan to a subsidiary of our joint venture with Formation and Safanad Management Limited, the Espresso joint venture, which bears interest at a fixed rate of 10.0% per year and matures in January 2021.

Recent Developments

Distribution Reinvestment Plan

For the period from January 1, 2017 through March 24, 2017, we issued 1.8 million shares pursuant to the DRP, representing gross proceeds of $16.7 million.

Distributions

On March 15, 2017, our board of directors approved a daily cash distribution of $0.001849315 per share of common stock for each of the three months ended June 30, 2017. 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, 2017 through March 24, 2017, we repurchased 0.9 million shares for a total of $8.6 million or a weighted average price of $9.19 per share under our Share Repurchase Program that enables stockholders to sell their shares to us in certain circumstances, including death or a qualifying disability. 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.

Trilogy Joint Venture

In January 2017, in accordance with the joint venture agreement, we funded an additional pro-rata capital contribution of $5.3 million for a total inception to date contribution of $225.8 million. The additional funding related to certain business initiatives, including the exercise of certain purchase options.

New Investments

Bonaventure

In February 2017, we completed the acquisition of the Bonaventure portfolio, which is comprised of five ILF/ALF totaling 453 units located in Oregon and Washington, for a purchase price of $98.9 million, excluding escrows and subject to customary

prorations and adjustments. We funded the acquisition with approximately $28.4 million of equity and obtained five ten-year fixed rate mortgage notes payable with total principal balance of $72.5 million.

Oak Cottage of Santa Barbara

In February 2017, we completed the acquisition of a 40 unit MCF located in Santa Barbara, California, for a purchase price of $18.6 million, excluding escrows and subject to customary prorations and adjustments. We funded the acquisition with approximately $16.2 million of equity and $3.5 million seller financing and we intend to seek additional financing.

Inflation

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

Refer to Item 7A. "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 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 NAREIT as net income (loss) (computed in accordance with U.S. GAAP), excluding gains (losses) from sales of depreciable property, the cumulative effect of changes in accounting principles, real estate-related depreciation and amortization, impairment on depreciable property owned directly or indirectly and after adjustments for unconsolidated ventures.

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

Acquisition fees paid to our Advisor in connection with the origination and acquisition of debt investments are amortized over the life of the investment as an adjustment to interest income under U.S. GAAP and are therefore included in the computation of net income (loss) and income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense), both of which are performance measures under U.S. GAAP. We adjust MFFO for the amortization of acquisition fees in the period when such amortization is recognized under U.S. GAAP. Acquisition fees are paid in cash that would otherwise be available to distribute to our stockholders. In the event that proceeds from our Offering are not sufficient to fund the payment or reimbursement of acquisition fees and expenses to our Advisor, such fees would be paid from other sources, including new financing, operating cash flow, net proceeds from the sale of investments or from other cash flow. We believe that acquisition fees incurred by us negatively impact our operating performance during the period in which such investments are originated or acquired by reducing cash flow and therefore the potential distributions to our stockholders. However, in general, we earn origination fees for debt investments from our borrowers in an amount equal to the acquisition fees paid to our Advisor, and as a result, the impact of acquisition fees to our operating performance and cash flow would be minimal.

Acquisition fees and expenses paid to our Advisor and third parties in connection with the acquisition of equity investments are generally considered expenses and are included in the determination of net income (loss) and income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense), both of which are performance measures under U.S. GAAP. Such fees and expenses will not be reimbursed by our Advisor or its affiliates and third parties, and therefore, if there are no further proceeds from the sale of shares of our common stock to fund future acquisition fees and expenses, such fees and expenses will need to be paid from either additional debt, operating earnings, cash flow or net proceeds from the sale of investments or properties. All paid and accrued acquisition fees and expenses will have negative effects on future distributions to stockholders and cash flow generated by us, unless earnings from operations or net sales proceeds from the disposition of other properties are generated to cover the purchase price of the property, these fees and expenses and other costs related to such property.

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) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense) over our life.

Due to certain of the unique features of publicly-registered, non-traded REITs, 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 NAV since an impairment is taken into account in determining NAV but not in determining MFFO.

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

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

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

MFFO excludes non-recurring impairment of real estate-related investments. We assess the credit quality of our investments and adequacy of reserves/impairment on a quarterly basis, or more frequently as necessary. Significant judgment is required in this analysis. With respect to debt investments, we consider the estimated net recoverable value of the loan as well as other factors, including but not limited to the fair value of any collateral, the amount and the status of any senior debt, the prospects for the

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

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

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

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

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

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

	Years Ended December 31,		
	2016	2015	2014
Funds from operations:			
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (141,275)	$ (82,370)	$ (14,945)
Adjustments:			
Depreciation and amortization	81,786	27,038	4,291
Depreciation and amortization related to unconsolidated ventures	87,065	42,801	3,390
Depreciation and amortization related to non-controlling interests	(564)	(568)	(62)
(Gain) loss on consolidation of unconsolidated venture	(6,408)	—	—
Realized gain from sales of property related to unconsolidated ventures	(1,653)	—	—
Impairment losses of depreciable real estate held by unconsolidated ventures	1,451	276	—
Funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	$ 20,402	$ (12,823)	$ (7,326)
Modified funds from operations:			
Funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	$ 20,402	$ (12,823)	$ (7,326)
Adjustments:			
Acquisition fees and transaction costs	14,585	20,114	8,207
Straight-line rental (income) loss, net	(1,780)	(3,413)	(1,149)
Amortization of premiums, discounts and fees on investments and borrowings, net	4,118	1,684	906
Amortization of discounts on healthcare-related securities	328	—	—
Deferred tax (benefit) expense	7,019	(5,611)	(1,415)
Adjustments related to unconsolidated ventures[1]	20,685	38,077	11,884
Adjustments related to non-controlling interests	(23)	(147)	(34)
Realized (gain) loss on investments and other	(600)	721	156
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust	(298)	—	—
Modified funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	$ 64,436	$ 38,602	$ 11,229

(1) Primarily represents our proportionate share of transaction costs and amortization of above/below market debt adjustments and deferred financing costs incurred through our investments in unconsolidated ventures.

Distributions Declared and Paid

We generally pay distributions on a monthly basis based on daily record dates. Based on our estimated net asset value per share of $9.10 as of June 30, 2016, our annualized distribution amount represents an effective current yield of 7.4%. From the date of our first investment on April 5, 2013 through December 31, 2016, we paid an annualized distribution amount of $0.675 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, 2016 and year ended December 31, 2015 (dollars in thousands):

	Years Ended December 31,					
	2016			2015		
Distributions[1]						
Cash	$	55,223		$	38,972	
DRP		67,919			49,299	
Total	$	123,142		$	88,271	
Sources of Distributions[1]						
FFO[2]	$	20,402	17%	$	—	—%
Offering proceeds - Distribution support		—	—%		2,614	3%
Offering proceeds - Other		102,740	83%		85,657	97%
Total	$	123,142	100%	$	88,271	100%
Cash Flow Provided by (Used in) Operations	$	3,972		$	(8,563)	

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

(2) From inception of our first investment on April 5, 2013 through December 31, 2016, we declared $239.4 million in distributions. Cumulative FFO for the period from April 5, 2013 through December 31, 2016 was $(2.2) million.

Distributions in excess of our cash flow provided by operations were paid using Offering proceeds, including from the purchase of additional shares by NorthStar Realty. In the future, we expect that our distributions will be paid 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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

Changes in interest rates may affect our net income as a result of changes in interest expense incurred in connection with floating-rate borrowings used to finance our equity investments, as well as changes in net interest income of our real estate debt investments. As of December 31, 2016, 6.8% of our total borrowings were floating rate liabilities and none of our real estate debt investments were floating rate investments. Of the floating rate liabilities, 100% related to our directly owned operating real estate equity investment mortgage notes payable.

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

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

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. 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 and expenses

from our borrowings. As of December 31, 2016, a hypothetical 100 basis point increase in interest rates would increase net interest expense by $0.8 million annually. We did not have any floating rate real estate debt investments as of December 31, 2016.

A change in interest rates could affect the value of our fixed-rate debt investments. For instance, an increase in interest rates would result in a higher required yield on investments, which would decrease the value on existing fixed-rate investments in order to adjust their yields to current market levels. As of December 31, 2016, we had one fixed-rate debt investment with a carrying value of $74.5 million.

Credit Spread Risk

The value of our fixed and floating-rate investments also changes with market credit spreads. This means that when market-demanded risk premium, or credit spread, increases, the value of our fixed and floating-rate assets decrease and vice versa. Fixed-rate assets are valued based on a market credit spread over the rate payable on fixed-rate U.S. 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

We are subject to the credit risk of the operators or managers of our healthcare properties. We undertake a rigorous credit evaluation of each healthcare operator prior to acquiring healthcare properties. This analysis includes an extensive due diligence investigation of the operator or manager's business as well as an assessment of the strategic importance of the underlying real estate to the operator or manager's core business operations. Where appropriate, we may seek to augment the operator or manager's commitment to the facility by structuring various credit enhancement mechanisms into the underlying leases, management agreements or joint venture arrangements. These mechanisms could include security deposit requirements or guarantees from entities we deem creditworthy. In addition, we actively monitor lease coverage at each facility within our healthcare portfolio. The extent of pending or future healthcare regulation may have a material impact on the valuation and financial performance of this portion of our portfolio. For the year ended December 31, 2016, gross revenues from two of our operators, Watermark Retirement Communities and Holiday Retirement Communities, represented 49.0% and 38.6%, respectively, of our total revenues attributable to direct investments. No other operator generated more than 10% of gross revenues during the year ended December 31, 2016.

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, 2016, three debt investments each contributed more than 10.0% of interest income. As of December 31, 2016, one borrower, a subsidiary of the Espresso joint venture, represented 100.0% of the aggregate principal amount of our debt investments.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements of NorthStar Healthcare Income, Inc. and the notes related to the foregoing consolidated financial statements, together with the independent registered public accounting firm's report thereon are included in this Item 8.

Index to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

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, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows for each of the three years in the period ended December 31, 2016. 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, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 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, present fairly, in all material respects, the information set forth therein.

/s/ GRANT THORNTON LLP

New York, New York

March 30, 2017

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Per Share Data)

	December 31,	
	2016	2015
Assets		
Cash and cash equivalents	$ 223,102	$ 354,229
Restricted cash	28,790	15,612
Operating real estate, net	1,571,980	832,253
Investments in unconsolidated ventures (refer to Note 4)	360,534	534,541
Real estate debt investments, net	74,558	192,934
Senior housing mortgage loans held in a securitization trust, at fair value	553,707	—
Receivables, net	12,260	8,016
Deferred costs and intangible assets, net	116,404	44,261
Other assets	16,874	20,382
Total assets[(1)]	$ 2,958,209	$ 2,002,228
Liabilities		
Mortgage notes payable, net	$ 1,200,982	$ 570,985
Senior housing mortgage obligations issued by a securitization trust, at fair value	522,933	—
Due to related party	219	443
Escrow deposits payable	3,209	2,046
Distribution payable	10,579	10,002
Accounts payable and accrued expenses	25,105	10,234
Other liabilities	3,208	3,018
Total liabilities[(1)]	1,766,235	596,728
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, 2016 and December 31, 2015	—	—
Common stock, $0.01 par value, 400,000,000 shares authorized, 185,034,967 and 179,137,202 shares issued and outstanding as of December 31, 2016 and December 31, 2015, respectively	1,850	1,791
Additional paid-in capital	1,666,479	1,614,452
Retained earnings (accumulated deficit)	(480,516)	(216,099)
Accumulated other comprehensive income (loss)	(1,188)	—
Total NorthStar Healthcare Income, Inc. stockholders' equity	1,186,625	1,400,144
Non-controlling interests	5,349	5,356
Total equity	1,191,974	1,405,500
Total liabilities and equity	$ 2,958,209	$ 2,002,228

(1) Represents the consolidated assets and liabilities of NorthStar Healthcare Income Operating Partnership, LP (the "Operating Partnership"). The Operating Partnership is a consolidated variable interest entity ("VIE"), of which the Company is the sole general partner and owns approximately 99.99%. As of December 31, 2016, the assets and liabilities of the Operating Partnership include $1.0 billion and $828.5 million of assets and liabilities, respectively, of certain VIEs that are consolidated by the Operating Partnership. Refer to Note 2. "Summary of Significant Accounting Policies".

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in Thousands, Except Per Share Data)

	Years Ended December 31,		
	2016	2015	2014
Property and other revenues			
Resident fee income	$ 102,915	$ 63,056	$ 14,511
Rental income	132,108	28,456	8,038
Other revenue	1,585	1,941	—
Total property and other revenues	236,608	93,453	22,549
Net interest income			
Interest income on debt investments	17,720	17,763	7,490
Interest income on mortgage loans held in a securitized trust	5,022	—	—
Interest expense on mortgage obligations issued by a securitization trust	3,772	—	—
Net interest income	18,970	17,763	7,490
Expenses			
Real estate properties - operating expenses	129,954	45,773	10,810
Interest expense	50,243	17,617	2,981
Other expenses related to securitization trust	765	—	—
Transaction costs	2,204	5,765	3,405
Asset management and other fees - related party	45,092	33,385	8,220
General and administrative expenses	24,843	20,213	4,418
Depreciation and amortization	81,786	27,038	4,291
Total expenses	334,887	149,791	34,125
Other income (loss)			
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net	298	—	—
Realized gain (loss) on investments and other	600	(721)	(156)
Gain (loss) on consolidation of unconsolidated venture (refer to Note 3)	6,408	—	—
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	(72,003)	(39,296)	(4,242)
Equity in earnings (losses) of unconsolidated ventures	(62,175)	(49,046)	(12,127)
Income tax benefit (expense)	(7,104)	5,598	1,390
Net income (loss)	(141,282)	(82,744)	(14,979)
Net (income) loss attributable to non-controlling interests	7	374	34
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (141,275)	$ (82,370)	$ (14,945)
Net income (loss) per share of common stock, basic/diluted	$ (0.77)	$ (0.63)	$ (0.38)
Weighted average number of shares of common stock outstanding, basic/diluted	182,446,286	131,104,887	39,804,750

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,		
	2016	**2015**	**2014**
Net income (loss)	$ (141,282)	$ (82,744)	$ (14,979)
Other comprehensive income (loss)			
Foreign currency translation adjustments related to investment in unconsolidated venture	(1,188)	—	—
Total other comprehensive income (loss)	(1,188)	—	—
Comprehensive income (loss)	(142,470)	(82,744)	(14,979)
Comprehensive (income) loss attributable to non-controlling interests	7	374	34
Comprehensive income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (142,463)	$ (82,370)	$ (14,945)

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

(Dollars and Shares in Thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Company's Stockholders' Equity	Non-controlling Interests	Total Equity
	Shares	Amount						
Balance as of December 31, 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
Net proceeds from issuance of common stock	76,761	767	696,724	—	—	697,491	—	697,491
Issuance and amortization of equity-based compensation	12	—	115	—	—	115	—	115
Non-controlling interests - contributions	—	—	—	—	—	—	4,472	4,472
Shares redeemed for cash	(407)	(4)	(3,924)	—	—	(3,928)	—	(3,928)
Distributions declared	—	—	—	(88,271)	—	(88,271)	—	(88,271)
Proceeds from distribution reinvestment plan	4,799	48	46,332	—	—	46,380	—	46,380
Net income (loss)	—	—	—	(82,370)	—	(82,370)	(374)	(82,744)
Balance as of December 31, 2015	179,137	$ 1,791	$ 1,614,452	$ (216,099)	$ —	$ 1,400,144	$ 5,356	$ 1,405,500
Net proceeds from issuance of common stock	81	1	295	—	—	296	—	296
Issuance and amortization of equity-based compensation	14	—	166	—	—	166	—	166
Non-controlling interests - contributions	—	—	—	—	—	—	291	291
Non-controlling interests - distributions	—	—	—	—	—	—	(291)	(291)
Shares redeemed for cash	(1,765)	(18)	(16,120)	—	—	(16,138)	—	(16,138)
Distributions declared	—	—	—	(123,142)	—	(123,142)	—	(123,142)
Proceeds from distribution reinvestment plan	7,568	76	67,686	—	—	67,762	—	67,762
Other comprehensive income (loss)	—	—	—	—	(1,188)	(1,188)	—	(1,188)
Net income (loss)	—	—	—	(141,275)	—	(141,275)	(7)	(141,282)
Balance as of December 31, 2016	185,035	$ 1,850	$ 1,666,479	$ (480,516)	$ (1,188)	$ 1,186,625	$ 5,349	$ 1,191,974

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,		
	2016	2015	2014
Cash flows from operating activities:			
Net income (loss)	$ (141,282)	$ (82,744)	$ (14,979)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Equity in (earnings) losses of unconsolidated ventures	62,175	49,046	12,127
Depreciation and amortization	81,786	27,038	4,291
Amortization of below market debt adjustment	2,339	—	—
Straight-line rental income, net	(1,780)	(3,413)	(1,149)
Amortization of premium/accretion of discount on investments	(35)	107	141
Amortization of deferred financing costs	1,813	1,552	605
Amortization of equity-based compensation	166	115	60
Deferred income tax (benefit) expense, net	7,019	(5,611)	(1,415)
Realized (gain) loss on investments and other	(600)	721	156
(Gain) loss on consolidation of unconsolidated venture (refer to Note 3)	(6,408)	—	—
Unrealized (gain) loss on senior housing mortgage loans and obligations, at fair value	(298)	—	—
Distributions of cumulative earnings from unconsolidated ventures	267	249	199
Allowance for uncollectible accounts	153	—	—
Changes in assets and liabilities:			
Restricted cash	(1,404)	(969)	(2,108)
Receivables, net	(1,777)	(2,250)	(980)
Other assets	(1,463)	612	(154)
Due to related party	(224)	(730)	(876)
Escrow deposits payable	792	(175)	570
Accounts payable and accrued expenses	3,550	7,403	1,592
Other liabilities	(817)	486	—
Net cash provided by (used in) operating activities	3,972	(8,563)	(1,920)
Cash flows from investing activities:			
Acquisition of operating real estate investments, net	(142,941)	(579,973)	(207,974)
Improvement of operating real estate investments	(29,428)	(11,889)	(1,524)
Deferred costs and intangible assets	—	(51,238)	—
Origination of real estate debt investments	—	(74,438)	(20,024)
Acquisition of real estate debt investments	—	188	(120,521)
Repayment on real estate debt investments	118,411	27,476	—
Investment in unconsolidated ventures	(20,731)	(394,015)	(225,380)
Distributions in excess of cumulative earnings from unconsolidated ventures	34,511	25,732	3,458
Purchase of healthcare-related securities	(30,475)	—	—
Change in restricted cash	(2,802)	(5,930)	(4,472)
Other assets	(876)	(5,246)	(5,442)
Net cash provided by (used in) investing activities	(74,331)	(1,069,333)	(581,879)
Cash flows from financing activities:			
Borrowing from mortgage notes	18,760	503,750	65,500
Repayment of mortgage notes	(10,500)	—	(7,782)
Payment of deferred financing costs	(694)	(8,328)	(2,612)
Change in restricted cash	2,202	(170)	(223)
Net proceeds from issuance of common stock	405	702,743	759,492
Net proceeds from issuance of common stock, related party	—	2,597	642
Shares redeemed for cash	(16,138)	(3,928)	(142)
Distributions paid on common stock	(122,565)	(83,063)	(22,404)
Proceeds from distribution reinvestment plan	67,762	46,380	12,373
Contributions from non-controlling interests	291	4,472	1,090
Distributions to non-controlling interests	(291)	—	—
Net cash provided by (used in) financing activities	(60,768)	1,164,453	805,934
Net increase (decrease) in cash and cash equivalents	(131,127)	86,557	222,135
Cash and cash equivalents- beginning of period	354,229	267,672	45,537
Cash and cash equivalents- end of period	$ 223,102	$ 354,229	$ 267,672

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,		
	2016	2015	2014
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 45,898	$ 13,930	$ 1,750
Cash paid for income taxes	81	916	21
Supplemental disclosure of non-cash investing and financing activities:			
Accrued cost of capital (refer to Note 7)	$ —	$ 42	$ 1,333
Subscriptions receivable, gross	—	111	8,758
Escrow deposits related to real estate debt investments	293	139	46
Distribution payable	10,579	10,002	4,794
Conversion of real estate debt investment to investment in unconsolidated ventures	—	—	5,387
Other liabilities	—	2,532	191
Transfer of non-controlling interest in joint venture for controlling interest in consolidated real estate investment (refer to Note 3)	103,005	—	—
Assumption of mortgage notes payable upon acquisition of operating real estate	648,211	—	—
Reclassification related to measurement-period adjustment (refer to Note 3)	143,070	17,860	—
Consolidation of securitization trust (VIE asset/liability)	522,933	—	—
Accrued capital expenditures	—	1,003	228
Accrued acquisition fees - unconsolidated ventures	—	378	—
Reclassification of deferred financing costs to mortgage notes payable	—	8,765	1,645

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, which the Company defines as assisted living ("ALF"), memory care ("MCF"), skilled nursing ("SNF"), independent living ("ILF") facilities and continuing care retirement communities ("CCRC"), which may have independent living, assisted living, skilled nursing and memory care available on one campus. The Company also invests in other healthcare property types, including medical office buildings ("MOB"), hospitals, rehabilitation facilities and ancillary healthcare services businesses. The Company's investments are predominantly in the United States, but it also selectively makes international investments. The Company was formed in October 2010 as a Maryland corporation and commenced operations in February 2013. The Company elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), commencing with the taxable year ended December 31, 2013. The Company conducts its operations so as to continue to qualify as a REIT for U.S. federal income tax purposes.

The Company's equity investments are generally healthcare properties, which are either structured as net leases to healthcare operators or operated through management agreements with independent third-party operators, where applicable through the REIT Investment Diversification and Empowerment Act of 2007 ("RIDEA") structures that permit the Company, through taxable REIT subsidiaries ("TRS"), to have direct exposure to resident fee income and incur related operating expenses. The Company's debt investments generally consist of first mortgage loans and mezzanine loans. The Company's real estate securities consist of an investment in a securitization trust, backed primarily by loans secured by a variety of healthcare properties. Refer to Note 6. Healthcare-Related Securities and Note 13. Segment Reporting for further discussion.

The Company is externally managed and has no employees. Prior to January 11, 2017, the Company was managed by an affiliate of NorthStar Asset Management Group Inc. (NYSE: NSAM) ("NSAM"). Effective January 10, 2017, NSAM completed its previously announced mergers with Colony Capital, Inc. ("Colony"), NorthStar Realty Finance Corp. ("NorthStar Realty"), and Colony NorthStar, Inc. ("Colony NorthStar"), a wholly-owned subsidiary of NSAM, with Colony NorthStar surviving the mergers and succeeding NSAM as the Company's sponsor (the "Sponsor"), which the Company refers to as the mergers. As a result of the mergers, the Sponsor became an internally-managed equity REIT, with a diversified real estate and investment management platform and publicly-traded on the NYSE under the ticker symbol "CLNS." CNI NSHC Advisors, LLC, as successor to NSAM J-NSHC Ltd, or our Advisor, is now a subsidiary of Colony NorthStar. The Advisor manages the Company's day-to-day operations pursuant to an advisory agreement. The mergers had no material impact on the Company's operations.

The Sponsor and its affiliates also provide asset management and other services to NorthStar Realty Europe Corp. (NYSE: NRE), other sponsored public retail-focused companies, private funds and any other companies the Sponsor and its affiliates may manage in the future (collectively, the "Managed Companies"), both in the United States and internationally.

Previously, the Company was managed by an affiliate of NorthStar Realty until June 30, 2014, when it spun-off its asset management business into NSAM. Concurrent with the spin-off, the Advisor agreed to manage the Company's day-to-day operations 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 material impact on the Company's operations.

Substantially all the Company's business is conducted through NorthStar Healthcare Income Operating Partnership, LP (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. The limited partners of the Operating Partnership are the Prior Advisor and NorthStar Healthcare Income OP Holdings, LLC (the "Special Unit Holder"), each an affiliate of the Sponsor. The Prior Advisor invested $1,000 in the Operating Partnership in exchange for common units and the Special Unit Holder invested $1,000 in the Operating Partnership and was issued a separate class of limited partnership units (the "Special Units"), which are collectively recorded as non-controlling interests on the accompanying consolidated balance sheets as of December 31, 2016 and 2015. As the Company issued shares, it contributed substantially all of the proceeds from its continuous, public offerings to the Operating Partnership as a capital contribution. As of December 31, 2016, the Company's limited partnership interest in the Operating Partnership was 99.99%.

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

The Company initially registered to offer up to 100.0 million shares pursuant to its primary offering to the public (the "Initial Primary Offering") and up to 10.5 million shares pursuant to its distribution reinvestment plan (the "Initial DRP"), which are herein collectively referred to as the Initial Offering. The Initial Offering (including 8.6 million shares reallocated from the Initial DRP) was completed on February 2, 2015 by raising gross proceeds of $1.1 billion. All of the shares initially registered for the Initial Offering were issued.

On February 6, 2015, the Company's registration statement on Form S-11 was declared effective by the U.S. Securities and Exchange Commission (the "SEC") for a follow-on public offering (the "Follow-on Offering") of up to $700.0 million which included 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 stopped accepting subscriptions for the Follow-on Offering on December 17, 2015 and all of the shares initially registered (including $159.5 million of shares reallocated from the Follow-on DRP) for the Follow-on Offering were issued on or before January 19, 2016. The Company registered an additional 30.0 million shares to be offered pursuant to its DRP beyond the completion of the Follow-on Offering and continues to offer such shares.

The Initial Primary Offering and the Follow-on Primary Offering are collectively referred to as the Primary Offering and the distribution reinvestment plan, including but not limited to, the Initial DRP and Follow-on DRP, are collectively referred to as the DRP. Additionally, the Primary Offering and the Initial DRP and Follow-on DRP are collectively referred to as the Offering.

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

From inception through March 22, 2017, the Company raised total gross proceeds of $1.9 billion, including $143.6 million in DRP proceeds.

2. Summary of Significant Accounting Policies

Basis of Accounting

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, the Operating Partnership and their consolidated subsidiaries. The Company consolidates VIE's where the Company is the primary beneficiary and voting interest entities which are generally majority owned or otherwise controlled by the Company. All significant intercompany balances are eliminated in consolidation.

Variable Interest Entities

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

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

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

As of December 31, 2016, the Company has identified certain consolidated and unconsolidated VIEs. Assets of each of the VIEs, other than the Operating Partnership, may only be used to settle obligations of the respective VIE. Creditors of each of the VIEs have no recourse to the general credit of the Company. The Company identified several VIEs which were originally consolidated under the voting interest model prior to changes in the consolidation rules under U.S. GAAP.

The Company adopted the new consolidation guidance (refer to Recent Accounting Pronouncements") on January 1, 2016 which resulted in the identification of several VIEs. Prior to the adoption of the standard, these entities were consolidated under the voting interest model.

Consolidated VIEs

The Company's most significantly newly identified consolidated VIEs as a result of the adoption of the new consolidation guidance on January 1, 2016 are the Operating Partnership and certain properties that have non-controlling interests. These entities are VIEs because the non-controlling interests do not have substantive kick-out or participating rights. The Operating Partnership consolidates certain properties that have non-controlling interests. Included in operating real estate, net on the Company's consolidated balance sheets as of December 31, 2016 is $430.4 million related to such consolidated VIEs. Included in mortgage notes payable, net on the Company's consolidated balance sheets as of December 31, 2016 is $296.7 million, collateralized by the real estate assets of the related consolidated VIEs.

Investing VIEs

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

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

As of December 31, 2016, the Company held Class B certificates in an Investing VIE for which the Company has determined it is the primary beneficiary because it has the power to direct the activities that most significantly impact the economic performance of the securitization trust. The Company's Class B Certificates, which represents the retained interest, and related interest income are eliminated in consolidation. In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810, *Consolidation*, the assets, liabilities (obligations to the certificate holders of the securitization trust, less the Company's retained interest from the Class B certificates of the securitization), income and expense of the entire Investing VIE are presented in the consolidated financial statement of the Company. In summary, the Company legally owns the Class B certificates only. However, U.S. GAAP requires the Company to gross up the consolidated financial statements to reflect the entire securitization trust. Regardless of the gross-up, the Company's consolidated financial statements of operations reflect the net income attributable to its retained interest in the Class B certificates. Refer to Note 6. "Healthcare-Related Securities" for further detail.

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

The Company has adopted guidance issued by the FASB, allowing the Company to measure both the financial assets and liabilities of a qualifying collateralized financing entity, or CFE, such as its Investing VIEs, using the fair value of either the CFE's financial assets or financial liabilities, whichever is more observable. As the liabilities of the Company's Investing VIE are marketable securities with observable trade data, their fair value is more observable and will be referenced to determine the fair value for assets of its Investing VIE. Refer to section "Fair Value Option" below for further discussion.

Unconsolidated VIEs

As of December 31, 2016, the Company identified unconsolidated VIEs related to its real estate equity investments with a carrying value of $360.5 million. The Company's maximum exposure to loss as of December 31, 2016 would not exceed the carrying value of its investment in the VIEs and its investment in a $75.0 million mezzanine loan to a subsidiary of one of the VIEs. Based on management's analysis, the Company determined that it is not the primary beneficiary. Accordingly, these VIEs are not consolidated in the Company's financial statements as of December 31, 2016. The Company did not provide financial support to its unconsolidated VIEs during the years ended December 31, 2016. As of December 31, 2016, there were no explicit arrangements or implicit variable interests that could require the Company to provide financial support to its unconsolidated VIEs.

Voting Interest Entities

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

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

Investments in Unconsolidated Ventures

A non-controlling, unconsolidated ownership interest in an entity may be accounted for using the equity method or cost method, and for either method, the Company may elect the fair value option. The Company may account for an investment that does not qualify for equity method accounting using the cost method if the Company determines that it does not have significant influence.

Under the equity method, the investment is adjusted each period for capital contributions and distributions and its share of the entity's net income (loss). Capital contributions, distributions and net income (loss) of such entities are recorded in accordance with the terms of the governing documents. An allocation of net income (loss) may differ from the stated ownership percentage interest in such entity as a result of preferred returns and allocation formulas, if any, as described in such governing documents. Equity method investments are recognized using a cost accumulation model in which the investment is recognized based on the cost to the investor, which includes acquisition fees. The Company records as an expense certain acquisition costs and fees associated with consolidated investments deemed to be business combinations and capitalizes these costs for investments deemed to be acquisitions of an asset, including an equity method investment.

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 a preferred return and allocation formula, if any, as described in such governing documents.

Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that could affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates and assumptions.

Fair Value Option

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

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

Cash and Cash Equivalents

The Company considers all highly-liquid investments with an original maturity date of three months or less to be cash equivalents. Cash, including amounts restricted, may at times exceed the Federal Deposit Insurance Corporation deposit insurance limit of $250,000 per institution. The Company mitigates credit risk by placing cash and cash equivalents with major financial institutions. To date, the Company has not experienced any losses on cash and cash equivalents.

Restricted Cash

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

Operating Real Estate

The Company accounts for purchases of operating real estate that qualify as business combinations using the acquisition method, where the purchase price is allocated to tangible assets such as land, building, furniture and fixtures, improvements and other identified intangibles such as in place leases, goodwill and above or below market mortgages assumed, as applicable. Major replacements and betterments which improve or extend the life of the asset are capitalized and depreciated over their useful life. Ordinary repairs and maintenance are expensed as incurred. Operating real estate is carried at historical cost less accumulated depreciation. Operating real estate is depreciated using the straight-line method over the estimated useful life of the assets, summarized as follows:

Category:	Term:
Building	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
Land improvements	15 years

Construction costs incurred in connection with the Company's investments are capitalized and included in operating real estate, net on the consolidated balance sheets. Construction in progress is not depreciated until the development is substantially completed. Costs directly related to an acquisition deemed to be a business combination are expensed and included in transaction costs in the consolidated statements of operations. The Company evaluates whether a real estate acquisition constitutes a business and whether business combination accounting is appropriate.

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

Real Estate Debt Investments

Real estate debt investments are generally intended to be held to maturity and, accordingly, are carried at cost, net of unamortized loan fees, premium, discount and unfunded commitments. Debt investments that are deemed to be impaired are carried at amortized cost less a 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 fair value.

Healthcare-Related Securities

The Company classifies its securities investments as available for sale on the acquisition date, which are carried at fair value. Unrealized gains (losses) 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. As of December 31, 2016, the Company held Class B certificates of a securitization trust, which represents the Company's retained interest in the securitization trust, which the Company consolidate under U.S. GAAP. Refer to Note 6, "Healthcare-Related Securities" for further discussion.

Deferred Costs and Intangible Assets

Deferred Costs

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

Identified Intangibles

The Company records acquired identified intangibles based on estimated fair value. In-place lease intangible assets are amortized into depreciation and amortization expense in the consolidated statements of operations on a straight-line basis over the remaining lease or resident agreement term.

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

Identified intangible assets are recorded in deferred costs and intangible assets, net on the consolidated balance sheets. As of December 31, 2016, the weighted average amortization period for in-place lease cost is 3.8 years.

The following table presents a summary of deferred costs and intangible assets as of December 31, 2016 and 2015 (dollars in thousands):

	December 31, 2016	December 31, 2015
Deferred costs and intangible assets:		
In-place lease value, net	$ 93,554	$ 21,307
Goodwill	22,112	22,112
Other intangible assets	380	380
Subtotal intangible assets	116,046	43,799
Deferred financing and other costs, net	358	462
Total	$ 116,404	$ 44,261

The Company recorded $41.0 million of in-place lease and deferred lease cost amortization expense for the year ended December 31, 2016. The Company recorded $12.1 million of in-place lease and deferred lease cost amortization expense for the year ended December 31, 2015.

The following table presents annual amortization of deferred costs and intangible assets (dollars in thousands):

Years Ending December 31:	
2017	$ 39,584
2018	39,584
2019	8,157
2020	1,871
2021	1,871
Thereafter[1]	2,845
Total	$ 93,912

(1) Identified intangibles will be amortized through periods ending September 2029.

Intangibles related to below-market mortgages assumed are recorded in mortgages payable, net and the Company recognized as an increase to interest expense the amortization of such intangibles of $2.3 million for the year ended December 31, 2016. Intangibles related to below-market mortgages assumed will be amortized through periods ending June 2025.

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 years ended December 31, 2016 and 2015, total acquisition fees and expenses did not exceed the allowed limit for any investment. An acquisition fee incurred related to an equity investment will generally be expensed as incurred. An acquisition fee paid to the Advisor related to the acquisition of an equity or debt investment in an unconsolidated joint venture is included in investments in unconsolidated ventures on the consolidated balance sheets. An acquisition fee paid to the Advisor related to the origination or acquisition of debt investments is included in debt investments, net on the consolidated balance sheets and is amortized to interest income over the life of the investment using the effective interest method. The Company records as an expense certain acquisition costs and fees associated with transactions deemed to be business combinations in which it consolidates the asset and capitalizes these costs for transactions deemed to be acquisitions of an asset, including an equity investment.

Other Assets

The following table presents a summary of other assets as of December 31, 2016 and 2015 (dollars in thousands):

	As of December 31,	
	2016	2015
Other assets:		
Investment deposits and pending deal costs	$ 8,710	$ 6,629
Remainder interest in condominium units[1]	4,554	5,401
Deferred tax assets	7	7,026
Prepaid expenses	2,114	790
Other	1,489	536
Total	$ 16,874	$ 20,382

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

Revenue Recognition

Operating Real Estate

Rental income includes rental and escalation income from operating real estate and is derived from leasing of space to various types of tenants and healthcare operators. Rental revenue recognition commences when the tenant takes legal possession of the leased space and the leased space is substantially ready for its intended use. The leases are for fixed terms of varying length and

generally provide for rentals and expense reimbursements to be paid in monthly installments. Rental income from leases is recognized on a straight-line basis over the term of the respective leases. The excess of rents recognized over amounts contractually due pursuant to the underlying leases are included in unbilled rent receivable on the consolidated balance sheets. The Company amortizes any tenant inducements as a reduction of revenue utilizing the straight-line method over the term of the lease. Escalation income represents revenue from tenant/operator leases which provide for the recovery of all or a portion of the operating expenses and real estate taxes paid by the Company on behalf of the respective property. This revenue is recognized in the same period as the expenses are incurred.

The Company also generates operating income from operating healthcare properties. Revenue related to operating healthcare properties includes resident room and care charges and other resident service charges. Rent is charged and revenue is recognized when such services are provided, generally defined per their resident agreement as the date upon which a resident occupies a room or uses the services and is recorded in resident fee income in the consolidated statements of operations.

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

Real Estate Debt Investments

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

Healthcare-Related Securities

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

Credit Losses and Impairment on Investments

Operating Real Estate

The Company's real estate portfolio is reviewed on a quarterly basis, or more frequently as necessary, to assess whether there are any indicators that the value of its operating real estate may be impaired or that its carrying value may not be recoverable. A property's value is considered impaired if the Company's estimate of the aggregate expected future undiscounted cash flow generated by the property is less than the carrying value. In conducting this review, the Company considers U.S. macroeconomic factors, real estate and healthcare sector conditions, together with asset specific and other factors. To the extent an impairment has occurred, the loss is measured as the excess of the carrying value of the property over the estimated fair value and recorded in impairment on operating real estate in the consolidated statements of operations. As of December 31, 2016, the Company did not have any impaired operating real estate.

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. As of December 31, 2016 and 2015, the Company had an allowance for doubtful accounts of $0.6 million and an immaterial amount, respectively.

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 all 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. Interest accrued and not collected will be reversed against interest income. A loan is written off when it is no longer realizable and/or legally discharged. As of December 31, 2016, the Company did not have any impaired real estate debt investments.

Investments in Unconsolidated Ventures

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

Healthcare-Related Securities

Securities for which the fair value option is elected are not evaluated for other-than-temporary impairment ("OTTI") as any change in fair value is recorded in the consolidated statements of operations. Realized losses on such securities are reclassified to realized gain (loss) on investments 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. 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, was entitled to receive reimbursement for costs paid on behalf of the Company in connection with the Offering. The Company was 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 did not expect reimbursable organization and offering costs, including costs incurred in connection with the Follow-on Offering but 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. Based on gross proceeds of $1.7 billion from the Primary Offering, the Company incurred reimbursable organizational and offering costs, excluding selling commissions and dealer manager fees, of 1.0%, which was less than the 1.5% expected. The Company recorded 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 were recorded as an expense in general and administrative expenses in the consolidated statements of operations and offering costs were recorded as a reduction to equity.

Income Taxes

The Company elected to be taxed as a REIT and to comply with the related provisions of the Internal Revenue Code beginning in its taxable year ended December 31, 2013. Accordingly, the Company will generally not be subject to U.S. federal income tax to the extent of its distributions to stockholders as long as certain asset, income and share ownership tests are met. To maintain its qualification as a REIT, the Company must annually distribute at least 90% of its REIT taxable income to its stockholders and meet certain other requirements. The Company believes that all of the criteria to maintain the Company's REIT qualification have been met for the applicable periods, but there can be no assurance that these criteria will continue to be met in subsequent periods. If the Company were to fail to meet these requirements, it would be subject to U.S. federal income tax and potential interest and penalties, which could have a material adverse impact on its results of operations and amounts available for distributions to its stockholders. The Company has assessed its tax positions for all open tax years, which include 2014 to 2016, 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 a component of income tax expense, where applicable. The Company has not recognized any such amounts related to uncertain tax positions for the years ended December 31, 2016, 2015 and 2014.

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

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

Certain subsidiaries of the Company are subject to taxation by federal, state and foreign authorities for the periods presented. Income taxes are accounted for by the asset/liability approach in accordance with U.S. GAAP. Deferred taxes, if any, represent the expected future tax consequences when the reported amounts of assets and liabilities are recovered or paid. Such amounts arise from differences between the financial reporting and tax bases of assets and liabilities and are adjusted for changes in tax laws and tax rates in the period which such changes are enacted. A provision for income tax represents the total of income taxes paid or payable for the current period, plus the change in deferred taxes. Current and deferred taxes are provided on the portion of earnings (losses) recognized by the Company with respect to its interest in the TRS. Deferred income tax assets and liabilities are calculated based on temporary differences between the Company's U.S. GAAP consolidated financial statements and the federal and state income tax basis of assets and liabilities as of the consolidated balance sheet date. The Company evaluates the realizability of its deferred tax assets (e.g., net operating loss and capital loss carryforwards) and recognizes a valuation allowance if, based on the available evidence, it is more likely than not that some portion or all of its deferred tax assets will not be realized. When evaluating the realizability of its deferred tax assets, the Company considers estimates of expected future taxable income, existing and projected book/tax differences, tax planning strategies available and the general and industry specific economic outlook. This realizability analysis is inherently subjective, as it requires the Company to forecast its business and general economic environment in future periods. Changes in estimate of deferred tax asset realizability, if any, are included in provision for income tax benefit (expense) in the consolidated statements of operations. In the first quarter of 2016, the Company recorded a $7.0 million valuation allowance as it determined it will be unable to utilize a $7.0 million deferred tax asset. As of December 31, 2016, there are no changes in the facts and circumstances to indicate that the Company should release the valuation allowance.

The Company recorded an income tax expense of $7.1 million for the year ended December 31, 2016. The Company recorded an income tax benefit of $5.6 million and $1.4 million for the years ended December 31, 2015 and 2014, respectively.

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. The accounting standard update will replace most of the existing revenue recognition guidance currently promulgated by U.S. GAAP. In July 2015, the FASB decided to delay the effective date of the new revenue standard by one year. The effective date of the new revenue standard for the Company will be January 1, 2018. Leases are specifically excluded from this guidance and will be governed by the applicable lease codification; however, this update may have implications in certain variable payment terms included in lease agreements and in sale and leaseback transactions. The Company is currently assessing the potential effect of the adoption on its consolidated financial statements and related disclosures, as applicable.

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. The Company adopted this guidance in the first quarter 2016 and determined the Company's Operating Partnership is

considered a VIE. The Company is the primary beneficiary of the VIE, the VIE's assets can be used for purposes other than the settlement of the VIE's obligations and the Company's partnership interest is considered a majority voting interest. As such, this standard resulted in the identification of additional VIEs, however it did not have a material impact on the Company's consolidated financial position or results of operations.

In January 2016, the FASB issued an accounting update that addressed certain aspects of accounting and disclosure requirements of financial instruments, including the requirement that equity investments with readily determinable fair value be measured at fair value with changes in fair value recognized in results of operations. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company does not have any equity investments with readily determinable fair value recorded as available-for-sale. The Company does not believe that this guidance will have a material impact on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued an accounting update that sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The update requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. Additionally, the new update will require that lessees and lessors capitalize, as initial direct costs, only those costs that are incurred due to the execution of a lease. The new guidance is to be applied using a modified retrospective approach at the beginning of the earliest comparative period in the financial statements and is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently assessing the potential effect the adoption of this guidance will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued guidance which eliminates the requirement for an investor to retroactively apply the equity method when its increase in ownership interest (or degree of influence) in an investee triggers equity method accounting. The update requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment become qualified for equity method accounting. The update should be applied prospectively upon their effective date to increases in the level of ownership interests or degree of influence that results in the adoption of the equity method. The guidance is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. The Company will adopt the new guidance prospectively on January 1, 2017 and does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued guidance which amends several aspects of the accounting for equity-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statements of cash flows. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2016. The Company will adopt the new guidance prospectively on January 1, 2017 and does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued guidance that changes the impairment model for certain financial instruments by requiring companies to recognize an allowance for expected losses, rather than incurred losses as required currently by the incurred loss approach. The guidance will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases and off-balance-sheet credit exposures (e.g., loan commitments). The new guidance is effective for reporting periods beginning after December 15, 2019 and will be applied as a cumulative adjustment to retained earnings as of the effective date. The Company is currently assessing the potential effect the adoption of this guidance will have on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued guidance that makes eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The new guidance requires adoption on a retrospective basis unless it is impracticable to apply, in which case the company would be required to apply the amendments prospectively as of the earliest date practicable. The Company does not believe that this guidance will have a material impact on its consolidated financial statements and related disclosures.

In November 2016, the FASB issued guidance which requires entities to show the changes in the total of cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. Entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The guidance is effective for reporting periods beginning after December 15, 2017 and will be applied retrospectively to all periods presented. The Company does not believe that this guidance will have a material impact on its consolidated financial statements and related disclosures.

In January 2017 the FASB issued guidance to clarify the definition of a business under ASC 805, *Business Combinations*. This new standard clarifies the definition of a business and provides a screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The amendments in this update will be applied on a prospective basis. The Company expects that acquisitions of real estate or in-substance real estate will not meet the revised definition of a business because substantially all of the fair value is concentrated in a single identifiable asset or group of similar identifiable assets (i.e. land, buildings, and related intangible assets).

In January 2017, the FASB issued guidance which removes Step 2 from the goodwill impairment test. The guidance is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company is currently assessing the potential effect the adoption of this guidance will have on its consolidated financial statements and related disclosures.

3. Operating Real Estate

The following table presents operating real estate, net as of December 31, 2016 and 2015 (dollars in thousands):

	December 31,	
	2016	2015
Land	$ 221,353	$ 140,734
Land improvements	9,462	8,384
Buildings and improvements	1,329,118	664,555
Tenant improvements	5,172	1,522
Construction in progress	3,509	9,119
Furniture and fixtures	63,539	27,325
Subtotal	1,632,153	851,639
Less: Accumulated depreciation	(60,173)	(19,386)
Operating real estate, net	$ 1,571,980	$ 832,253

For the years ended December 31, 2016, 2015 and 2014, depreciation expense was $40.8 million, $15.0 million and $4.3 million respectively.

Real Estate Acquisitions

The following table summarizes operating real estate acquisitions for the year ended December 31, 2016 (dollars in thousands):

Acquisition Date	Type	Portfolio	Amount[1]	Properties	Units	Location	Financing	Company's Equity	Ownership Interest	Transaction Costs
March 2016	Operating Facilities	Winterfell	$ 904,985	32	3,985	Various	$ 648,211	$ 261,484	100.0%	$ 1,822

(1) Represents the purchase price for 100% of the Winterfell JV equity interests, including deferred costs and other assets, and may be adjusted upon completion of the final purchase price allocation.

In March 2016, the Company acquired NorthStar Realty's 60.0% interest in a joint venture (the "Winterfell JV") which owned 32 private pay independent living facilities (the "Winterfell portfolio") for a purchase price of $537.8 million, excluding escrows and subject to customary proration and adjustments. The transaction was approved by the Company's board of directors, including all of its independent directors, and validated by an independent third-party appraisal for the Winterfell portfolio. The Company originally acquired a 40.0% equity interest in the Winterfell JV in May 2015. The Company accordingly now owns 100.0% of the equity in the Winterfell portfolio as of March 1, 2016 and consolidates the portfolio. Prior to March 1, 2016, the Company accounted for its equity investment in the Winterfell JV as an unconsolidated venture under the equity method and as of December 31, 2015, the carrying value of the Company's investment was $95.7 million. For the three months ended March 31, 2016, the Company recognized $1.4 million in equity in earnings and received $0.6 million of cash distributions.

In connection with the consolidation of the Winterfell portfolio on March 1, 2016, the Company recognized a gain on consolidation of unconsolidated venture of $6.4 million, which was calculated as the difference between the carrying value of the Company's investment in the existing unconsolidated joint venture on the acquisition date and the Company's share of the fair value of the retained equity interest.

For business combinations achieved in stages, the acquisition date fair value of the Company's unconsolidated venture immediately before the acquisition date is determined through the Company's underwriting process, which includes the use of estimated cash flows projections and available market data, such as relevant discount and capitalization rates. Refer to Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional details of the Company's underwriting process. The acquisition date fair value of the equity interest in the Winterfell portfolio immediately before the acquisition date, as well as the gain on consolidation of unconsolidated venture, are as follows (dollars in thousands):

	Winterfell Portfolio
Purchase price	$ 894,157
Net consideration funded at closing, excluding consideration financed by debt	(142,941)
Debt assumed	(648,211)
Fair value of retained equity interest	103,005
Investment in unconsolidated venture[1]	(96,597)
Gain on consolidation of unconsolidated venture	$ 6,408

(1) Represents carrying value of investment in unconsolidated venture at March 1, 2016.

The following table presents the preliminary allocation of the purchase price of the operating real estate assets acquired and liabilities assumed or issued upon the closing of the acquisition of the Winterfell portfolio in 2016 (dollars in thousands):

Assets:	
Land and improvements	$ 80,618
Buildings, improvements and furniture and fixtures	671,077
Deferred costs and intangible assets, net[1]	113,140
Other assets[2]	24,234
Total assets acquired	$ 889,069
Liabilities:	
Mortgage notes payable, net[3]	$ 618,280
Other liabilities[4]	10,055
Total liabilities	628,335
Total NorthStar Healthcare Income, Inc. stockholders' equity	260,734
Total liabilities and equity	$ 889,069

(1) Primarily includes in-place lease intangibles.
(2) Primarily includes cash and cash equivalents and restricted cash.
(3) Includes below market debt intangibles.
(4) Includes accrued expenses.

During the measurement-period, the Company preliminarily determined that certain allocations of operating real estate acquired should be reclassified to deferred costs and other intangible assets, net and mortgage notes payable, net. The following table presents the effect of such preliminary purchase price reclassifications on the consolidated balance sheet as of December 31, 2016 (dollars in thousands):

	As Previously Determined[1]	Measurement Period Adjustments	Revised
Operating real estate	$ 894,766	$ (143,070)	$ 751,696
Deferred costs and other intangible assets[2]	—	113,140	113,140
Mortgage notes payable[3]	648,211	(29,931)	618,280

(1) Represents the preliminary allocation of the purchase price of the acquisition of the Winterfell portfolio on March 1, 2016.
(2) Primarily in-place lease intangibles.
(3) Includes below market debt.

During the year ended December 31, 2016, the Company recorded a measurement-period adjustment to earnings of $37.2 million. The table below shows the details of such adjustments:

Increase in interest expense[1]	$	2,339
Increase in depreciation and amortization[2]		34,897
Total measurement-period adjustment	$	37,236

(1) Represents amortization of below market debt.
(2) Represents depreciation of site and tenant improvements and amortization of in-place lease intangibles.

From the acquisition date of March 1, 2016 through December 31, 2016, the Company recorded aggregate revenue and net loss attributable to the Winterfell portfolio of $97.8 million and $36.7 million, respectively, in its consolidated statements of operations. The net loss is primarily attributable to depreciation expense and transaction costs of $18.9 million and $1.8 million, respectively.

The following presents unaudited consolidated pro forma results of operations based on the Company's historical financial statements and adjusted for the acquisition of the Winterfell portfolio and related borrowings as if it occurred on January 1, 2015. The unaudited pro forma amounts were prepared for comparable 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, except per share data):

	Years Ended December 31,			
		2016		2015
Pro forma total revenues	$	274,247	$	226,442
Pro forma net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders		(144,754)		(96,390)
Pro forma net income (loss) per share of common stock, basic/diluted	$	(0.79)	$	(0.73)

Minimum Future Rents

Minimum rental amounts due under leases are generally either subject to scheduled fixed increases or adjustments. The following table presents approximate future minimum rental income under noncancelable operating leases to be received over the next five years and thereafter as of December 31, 2016 are as follows (dollars in thousands):

Years Ending December 31, [1]		
2017	$	34,165
2018		34,088
2019		34,955
2020		35,497
2021		35,422
Thereafter		96,724
Total	$	270,851

(1) Excludes rental income from independent living properties that are subject to short-term leases.

The rental properties owned at December 31, 2016 are leased under noncancelable operating leases with current expirations ranging from 2020 to 2029, with certain tenant renewal rights. These net lease arrangements require the tenant to pay rent and substantially all the expenses of the leased property including maintenance, taxes, utilities and insurance. For certain properties, the tenants pay the Company, in addition to the contractual base rent, their pro rata share of real estate taxes and operating expenses. The Company's net lease agreements provide for periodic rental increases based on the greater of certain percentages or increase in the consumer price index.

4. Investments in Unconsolidated Ventures

The following tables present the Company's investments in unconsolidated ventures as of December 31, 2016 and 2015, all of which are accounted for under the equity method. The Company evaluates whether disclosure of summarized financial statement information is required for any individually significant investment in unconsolidated ventures, refer to Summarized Financial Data below.

						Properties					
Portfolio	Partner[1]	Acquisition Date	Ownership	Purchase Price[2]	Equity Investment[3]	Senior Housing Facilities	MOB	SNF	Hospitals	Total	Primary Locations
Eclipse	NorthStar Realty/ Formation Capital, LLC	May-2014	5.6%	$ 1,048,000	$ 23,400	44	—	36	—	80	Various
Envoy	Formation Capital, LLC/Safanad Management Limited	Sep-2014	11.4%	145,000	5,000	—	—	14	—	14	Mid - Atlantic/ Northeast
Griffin - American	NorthStar Realty	Dec-2014	14.3%	3,238,547	200,600	90	112	45	14	261	Various
Espresso	Formation Capital, LLC/Safanad Management Limited	Jul-2015	36.7%	870,000	55,000	6	—	152	—	158	Various
Trilogy	Griffin-American Healthcare REIT III, Inc./ Management Team of Trilogy Investors, LLC	Dec-2015	29.0%	1,162,613	220,500	6	—	70	—	76	Various
Total				$ 6,464,160	$ 504,500	146	112	317	14	589	

(1) During January 2017, NorthStar Realty completed its previously announced merger with Colony and NSAM.
(2) Purchase price represent the actual or implied gross purchase price for the joint venture on the acquisition date. Purchase price is not adjusted for subsequent acquisitions or dispositions of interest.
(3) Represents initial and subsequent contributions to the underlying joint venture.

	December 31, 2016			December 31, 2015			Carrying Value	
							December 31,	
Portfolio	Equity in Earnings (Losses)	Depreciation, Amortization Expense & Transaction Costs	Cash Distributions	Equity in Earnings (Losses)	Depreciation, Amortization Expense & Transaction Costs	Cash Distributions	2016[1]	2015[2]
Eclipse	$ 528	$ (1,800)	$ 1,963	$ (1,102)	$ (1,821)	$ 2,196	$ 15,932	$ 17,366
Envoy	980	176	267	619	(515)	307	6,398	5,685
Griffin - American	(7,847)	(18,029)	24,795	(8,191)	(22,504)	16,387	144,629	178,101
Winterfell[3]	1,423	—	591	(8,061)	(13,526)	5,028	—	95,765
Espresso	(5,388)	(4,392)	7,162	(18,603)	(21,171)	2,063	29,353	41,903
Trilogy	(51,871)	(63,443)	—	(13,708)	(13,485)	—	164,222	195,721
Total	$ (62,175)	$ (87,488)	$ 34,778	$ (49,046)	$ (73,022)	$ 25,981	$ 360,534	$ 534,541

(1) Includes $1.3 million, $0.4 million, $13.4 million, $7.6 million, and $9.2 million of capitalized acquisition costs for our investments in the Eclipse, Envoy, Griffin-American, Espresso and Trilogy joint ventures, respectively.
(2) Includes $1.3 million, $0.4 million, $13.4 million, $8.2 million, $7.6 million and $7.7 million of capitalized acquisition costs for our investments in the Eclipse, Envoy, Griffin-American, Winterfell, Espresso and Trilogy joint ventures, respectively.
(3) In March 2016, the Company acquired NorthStar Realty's 60.0% interest in the Winterfell JV. The transaction was approved by the Company's board of directors, including all of its independent directors, and the purchase price was supported by an independent third-party appraisal for the Winterfell portfolio. The Company originally acquired a 40.0% equity interest in the Winterfell JV in May 2015. The Company accordingly now owns 100.0% of the equity in the Winterfell portfolio as of March 1, 2016 and consolidates the portfolio.

Additional Investments in Joint Ventures

In June 2016, in accordance with the Trilogy joint venture agreement, the Company funded an additional pro-rata capital contribution of $18.8 million for a total contribution of $220.5 million. The additional funding related to certain business initiatives, including the acquisition of additional senior housing and skilled nursing facilities and repayment of certain outstanding obligations.

Divestitures by Joint Ventures

The Griffin-American joint venture sold 35 MOBs in December 2016 and one MOB in January 2017, within the Griffin-American portfolio for $782.5 million. The Company's proportionate share of net proceeds generated from the sale after repayment of debt totaled $13.5 million of which $0.5 million was received related to the sale in January 2017. The Company's proportionate share of realized gains recognized from this sale in 2016 was $1.7 million.

Summarized Financial Data

The combined balance sheets as of December 31, 2016 and 2015 and combined statements of operations for the years ended December 31, 2016, 2015 and 2014 for the Company's unconsolidated ventures are as follows (dollars in thousands):

	December 31,			Years Ended December 31,		
	2016	2015		2016	2015	2014
Assets						
Operating real estate, net	$ 4,937,341	$ 5,569,621	Total revenues	$ 1,461,890	$ 733,166	$ 124,283
Other assets	1,457,532	2,651,029	Net income (loss)	$ (243,503)	$ (207,350)	$ (92,587)
Total assets	$ 6,394,873	$ 8,220,650				
Liabilities and equity						
Total liabilities	$ 4,625,584	$ 5,833,484				
Equity	1,769,289	2,387,166				
Total liabilities and equity	$ 6,394,873	$ 8,220,650				

5. Real Estate Debt Investments

The following table presents one debt investment as of December 31, 2016 (dollars in thousands):

Asset Type:	Count	Principal Amount	Carrying Value	Allocation by Investment Type[1]	Fixed Rate	Total Unleveraged Current Yield
Mezzanine loan[2]	1	$ 75,000	$ 74,558	100.0%	10.0%	10.3%

(1) Based on principal amount.
(2) Maturity, including extensions is in 2021, approximately 4.1 years.

The following table presents debt investments as of December 31, 2015 (dollars in thousands):

					Weighted Average			
Asset Type:	Count	Principal Amount	Carrying Value	Allocation by Investment Type[1]	Fixed Rate	Spread over LIBOR[2]	Total Unleveraged Current Yield	Floating Rate as % of Principal Amount
First mortgage loan[3]	1	$ 14,637	$ 14,637	7.6%	—%	8.3%	8.4%	100.0%
Mezzanine loans	3	178,774	178,297	92.4%	10.0%	10.2%	10.3%	58.0%
Total/Weighted Average	4	$ 193,411	$ 192,934	100.0%	10.0%	9.9%	10.2%	61.2%

(1) Based on principal amount.
(2) Includes a fixed minimum LIBOR rate, as applicable.
(3) Subject to a 0.3% minimum LIBOR floor.

Credit Quality Monitoring

Certain debt investments are 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, 2016, the Company's one debt investment was performing in accordance with the contractual terms of its governing documents, in all material respects, and was categorized as a performing loan. For the year ended December 31, 2016, three debt investments each contributed more than 10.0% of interest income. As of December 31, 2016, one borrower represented 100.0% of the aggregate principal amount of the Company's debt investments.

6. Healthcare-Related Securities

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

The Company is the securitization trust's directing certificate holder and has the ability to appoint and replace the special servicer, on a majority of the mortgage loans. The remaining mortgage loans relate to properties in which the Company has an equity interest and therefore the Company is not the directing certificate holder. As such, U.S. GAAP requires the Company to consolidate the assets, liabilities, income and expenses of the securitization trust as an Investing VIE. Refer to Note 2. "Summary of Significant Accounting Policies" for further discussion on *Investing VIEs*.

Other than the securities represented by the Company's Class B certificates, the Company does not have any claim to the assets or exposure to the liabilities of the securitization trust. The original issuer, an unrelated third party, guarantees the interest and principal payments related to the investment grade securitization bonds in the securitization trust, therefore these obligations do not have any recourse to the general credit of the Company as the consolidator of the securitization trust. The Company's maximum exposure to loss as of December 31, 2016 would not exceed the carrying value of its retained investment in the securitization trust, or the Class B Certificates.

The following table presents the assets and liabilities recorded on the consolidated balance sheets attributable to the securitization trust as of December 31, 2016 (dollars in thousands):

Assets		
Senior housing mortgage loans held in a securitization trust, at fair value	$	553,707
Receivables		2,141
Total assets	$	555,848
Liabilities		
Senior housing mortgage obligations issued by a securitization trust, at fair value	$	522,933
Accounts payable and accrued expenses		1,934
Total liabilities	$	524,867

As of December 31, 2016, the senior housing mortgage loans and the related mortgage obligations held in the securitization trust had an unpaid principal balance of $574.5 million and $517.0 million, respectively.

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

The net fair value of the Company's investment or retained investment in the securitization trust of $31.0 million, which represents the difference between the carrying values of the senior housing mortgage loans held in the securitization trust less the carrying value of the securitized mortgage obligations, approximates the fair value of the Company's underlying securities. Refer to Note 12. "Fair Value" for a description of the valuation techniques used to measure fair value of assets and liabilities of the Investing VIE.

The following table presents the activity recorded for the year ending December 31, 2016 related to the consolidated securitization trust on the consolidated statement of operations and the net income attributable to NorthStar Healthcare Income, Inc. common stockholders which represents the net income attributable to the Company's investment in Class B certificates (dollars in thousands):

Statement of Operations	
Interest income on mortgage loans held in a securitized trust	$ 5,022
Interest expense on mortgage obligations issued by a securitization trust	(3,772)
Net interest income	1,250
Other expenses related to securitization trust	(765)
Transaction costs	(57)
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net	298
Net income attributable to NorthStar Healthcare Income, Inc. common stockholders	$ 726

7. Borrowings

The following table presents the Company's borrowings as of December 31, 2016 and 2015 (dollars in thousands):

				December 31, 2016		December 31, 2015	
	Recourse vs. Non-Recourse	Final Maturity	Contractual Interest Rate[1]	Principal Amount[2]	Carrying Value[2]	Principal Amount[2]	Carrying Value[2]
Mortgage notes payable, net							
Peregrine Portfolio[3]							
Various locations	Non-recourse	Dec-19	LIBOR + 3.50%	$ 24,000	$ 23,528	$ 24,000	$ 23,348
Watermark Aqua Portfolio							
Denver, CO	Non-recourse	Feb-21	LIBOR + 2.92%	21,500	21,309	21,500	21,255
Frisco, TX	Non-recourse	Mar-21	LIBOR + 3.04%	20,000	19,830	20,000	19,783
Milford, OH	Non-recourse	Sep-26	LIBOR + 2.68%	18,760	18,142	10,500	10,282
Arbors Portfolio[4]							
Various locations	Non-recourse	Feb-25	3.99%	93,750	91,992	93,750	91,712
Watermark Fountains Portfolio[5]							
Various locations	Non-recourse	Jun-22	3.92%	410,000	405,564	410,000	404,605
Winterfell Portfolio[6]							
Various locations	Non-recourse	Jun-25	4.17%	648,211	620,617	—	—
Total				$ 1,236,221	$ 1,200,982	$ 579,750	$ 570,985

(1) Floating rate borrowings are comprised of $60.3 million principal amount at one-month LIBOR and $24.0 million principal amount at three-month LIBOR.
(2) The difference between principal amount and carrying value of mortgage notes payable is attributable to deferred financing costs, net for all borrowings other than the Winterfell portfolio which is attributable to below market debt intangibles.
(3) This mortgage note arrangement has a capacity of up to $30.0 million, subject to certain conditions, secured by four healthcare properties. As of December 31, 2016, the Company has funded approximately $7.0 million into a lender controlled reserve to comply with certain minimum financial coverage ratios, which will be released to the Company once certain conditions are satisfied.
(4) Comprised of four mortgage notes payable with an aggregate amount of $93.8 million, secured by four healthcare real estate properties.
(5) Comprised of $410.0 million principal amount of fixed rate borrowings, secured by 15 healthcare real estate properties.

(6) Comprised of 32 individual mortgage notes payable that were assumed as part of the acquisition of the remaining 60.0% interest in the Winterfell portfolio on March 1, 2016. Refer to Note 3. "Operating Real Estate" for further discussion.

The following table presents scheduled principal on borrowings based on final maturity as of December 31, 2016 (dollars in thousands):

Years Ending December 31:		
2017	$	3,254
2018		10,942
2019		44,347
2020		22,378
2021		57,947
Thereafter		1,097,353
Total	$	1,236,221

As of December 31, 2016, the Company was in compliance with all of its financial covenants.

8. 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. In June 2015, the advisory agreement was renewed for an additional one-year term commencing on June 30, 2015 with terms identical to those in effect through June 30, 2015. In June 2016, the advisory agreement was renewed for an additional one-year term commencing on June 30, 2016, with terms identical to those in effect through June 30, 2016. 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, acquiring, originating and asset managing investments on behalf of the Company. The Advisor may delegate certain of its obligations to affiliated entities, which may be organized under the laws of the United States or foreign jurisdictions. References to the Advisor include the Advisor and any such affiliated entities. For such services, to the extent permitted by law and regulations, the Advisor receives fees and reimbursements from the Company. Below is a description and table of the fees and reimbursements incurred to the Advisor.

Fees to Advisor

Asset Management Fee

The Advisor 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).

Incentive Fee

The Advisor is entitled to receive distributions equal to 15.0% of net cash flows of the Company, whether from continuing operations, repayment of loans, disposition of assets or otherwise, but only after stockholders have received, in the aggregate, cumulative distributions equal to their invested capital plus a 6.75% cumulative, non-compounded annual pre-tax return on such invested capital.

Acquisition Fee

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

incurred related to an equity investment is generally expensed as incurred. A fee paid to the Advisor in connection with the acquisition of an equity or debt investment in an unconsolidated joint venture is generally included in investments in unconsolidated ventures on the consolidated balance sheets when the Company does not elect the fair value option for an investment. However, when the Company elects the fair value option for an investment, the Company will expense the acquisition fee. A fee paid to the Advisor in connection with 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.

Disposition Fee

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

Reimbursements to Advisor

Operating Costs

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

Organization and Offering Costs

The Advisor was entitled to receive reimbursement for organization and offering costs paid on behalf of the Company in connection with the Offering. The Company was obligated to reimburse the Advisor, as applicable, for organization and offering costs to the extent the aggregate of selling commissions, dealer manager fees and other organization and offering costs did not exceed 15% of gross proceeds from the Primary Offering. The Advisor did not expect reimbursable organization and offering costs, including costs incurred in connection with the Follow-on Offering but 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. Based on gross proceeds of $1.7 billion from the Primary Offering, the Company incurred reimbursable organizational and offering costs, excluding selling commissions and dealer manager fees, of 1.0%, which was less than the 1.5% expected. The Company's independent directors did not determine that any of the organization and offering costs were unfair and commercially unreasonable.

Dealer Manager

Selling Commissions and Dealer Manager Fees

Pursuant to a dealer manager agreement, the Company paid the Dealer Manager selling commissions of up to 7.0% of gross proceeds from the Primary Offering, all of which were reallowed to participating broker-dealers. In addition, the Company paid the Dealer Manager a dealer manager fee of up to 3.0% of gross proceeds from the Primary Offering, a portion of which was 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 tables present the fees and reimbursements incurred to the Advisor and the Dealer Manager for the years ended December 31, 2016 and 2015 and the amount due to related party as of December 31, 2016 and 2015 (dollars in thousands):

Type of Fee or Reimbursement	Financial Statement Location	Due to Related Party as of December 31, 2015	Year Ended December 31, 2016		Due to Related Party as of December 31, 2016
			Incurred	Paid	
Fees to Advisor Entities					
Asset management	Asset management and other fees-related party	$ 22	$ 32,712	$ (32,722)	$ 12
Acquisition[1]	Investments in unconsolidated ventures/Asset management and other fees-related party	378	13,924	(14,236)	66
Disposition[1]	Real estate debt investments, net	—	146	(146)	—
Reimbursements to Advisor Entities					
Operating costs[2]	General and administrative expenses	4	23,670	(23,533)	141
Organization	General and administrative expenses	—	—	—	—
Offering	Cost of capital[3]	39	447	(486)	—
Selling commissions	Cost of capital[3]	—	58	(58)	—
Dealer Manager Fees	Cost of capital[3]	—	25	(25)	—
Total		$ 443	$ 70,982	$ (71,206)	$ 219

(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 reimbursements. From inception through December 31, 2016, the Advisor waived $0.3 million of acquisition fees related to healthcare-related securities.

(2) As of December 31, 2016, the Advisor does not have any unreimbursed operating costs which remain eligible to be allocated to the Company.

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

Type of Fee or Reimbursement	Financial Statement Location	Due to Related Party as of December 31, 2014	Year Ended December 31, 2015		Due to Related Party as of December 31, 2015
			Incurred	Paid	
Fees to Advisor Entities					
Asset management	Asset management and other fees-related party	$ 6	$ 19,015	$ (18,999)	$ 22
Acquisition[1]	Real estate debt investments, net/Investments in unconsolidated ventures/Asset management and other fees-related party	245	38,449	(38,316)	378
Disposition[1]	Real estate debt investments, net	—	113	(113)	—
Reimbursements to Advisor Entities					
Operating costs[2]	General and administrative expenses	12	19,344	(19,352)	4
Organization	General and administrative expenses	2	—	(2)	—
Offering	Cost of capital[3]	490	5,038	(5,489)	39
Selling commissions	Cost of capital[3]	—	52,080	(52,080)	—
Dealer Manager Fees	Cost of capital[3]	—	23,274	(23,274)	—
Total		$ 755	$ 157,313	$ (157,625)	$ 443

(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 reimbursements.

(2) As of December 31, 2015, the Advisor had incurred unreimbursed operating costs on our behalf of $7.6 million that were eligible to be allocated to the Company.

(3) 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

In January 2015, the board of directors of the Company approved an amended and restated distribution support agreement (the "Distribution Support Agreement") extending the term until February 6, 2017. Pursuant to the Distribution Support Agreement, NorthStar Realty, currently a subsidiary of the Sponsor, 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, 2016, including the purchase of shares to satisfy the minimum offering requirement, NorthStar Realty purchased 588,116 shares of the Company's common stock for $5.3 million. As the Follow-on Offering has now been completed, NorthStar Realty has no further obligation to purchase shares under 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 the Eclipse portfolio, a $1.1 billion healthcare 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 a 14.3% interest in the Griffin-American portfolio 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 a 43.0%, as adjusted, ownership interest in American Healthcare Investors, LLC ("AHI") and Mr. James F. Flaherty III, a strategic partner of the Sponsor, acquired a 12.3% ownership interest in AHI. AHI is a healthcare-focused real estate investment management firm that co-sponsored and advised Griffin-American, until Griffin-American was acquired by the Company and NorthStar Realty. In connection with the Sponsor's acquisition of an interest in AHI, AHI provides certain asset management and related services, including property management, to the Advisor, NorthStar Realty and the Company. AHI currently provides such services to the

Company with respect to its interest in the Griffin-American portfolio and the Winterfell portfolio. Consequently, AHI assists the Advisor in managing the Griffin-American and Winterfell portfolios and may assist with other healthcare assets owned by the Company in the future.

The Griffin-American joint venture sold 35 MOBs in December 2016 and one MOB in January 2017, within the Griffin-American portfolio for an aggregate $782.5 million. Our proportionate share of net proceeds generated from the sale after repayment of debt totaled $13.5 million, of which $0.5 million was received related to the sale in January 2017. The Company's proportionate share of realized gains recognized from this sale in 2016 was $1.7 million.

In December 2015, the Company, through a joint venture with Griffin-American Healthcare REIT III, Inc. ("GAHR3"), a REIT sponsored and advised by AHI, acquired a 29% interest in the Trilogy portfolio, a $1.2 billion healthcare portfolio and contributed $201.7 million for its interest. The purchase was approved by the Company's board of directors, including all of its independent directors. In June 2016, in accordance with the joint venture agreement, the Company funded an additional capital contribution of $18.8 million for a total contribution of $220.5 million. The additional funding related to certain business initiatives, including the acquisition of additional senior housing and skilled nursing facilities and repayment of certain outstanding obligations.

In March 2016, the Company acquired NorthStar Realty's 60.0% interest in the Winterfell JV, which owned the Winterfell portfolio, for a purchase price of $537.8 million, excluding escrows and subject to customary proration and adjustments. The transaction was approved by the Company's board of directors, including all of its independent directors, and the purchase price was supported by an independent third-party appraisal for the Winterfell portfolio. The Company originally acquired a 40.0% equity interest in the Winterfell JV in May 2015. The Company accordingly now owns 100.0% of the equity in the Winterfell portfolio as of March 2016 and consolidates the portfolio. Prior to March 2016, the Company accounted for its equity investment in the Winterfell JV as an unconsolidated venture under the equity method. For the three months ended March 31, 2016, the Company recognized $1.4 million in equity in earnings and received $0.6 million of cash distributions.

Origination of Mezzanine Loan

In July 2015, the Company originated a $75.0 million mezzanine loan to a subsidiary of Espresso, which bears interest at a fixed rate of 10.0% per year and matures in January 2021.

9. Equity-Based Compensation

The Company adopted a long-term incentive plan, as amended (the "Plan"), which it may use to attract and retain qualified officers, directors, employees and consultants, as well as an independent directors compensation plan, which is a component of the Plan. Pursuant to the Plan, as of December 31, 2016, the Company's independent directors were granted a total of 55,670 shares of restricted common stock for an aggregate $0.5 million, based on the share price on the date of each grant. The restricted stock granted prior to 2015 generally vests quarterly over four years and the restricted stock granted in and subsequent to 2015 generally vests quarterly over two years. However, the stock will become fully vested on the earlier occurrence of: (i) the termination of the independent director's service as a director due to his or her death or disability; or (ii) a change in control of the Company.

The Company recognized equity-based compensation expense of $0.2 million, $0.1 million and $0.1 million for the years ended December 31, 2016, 2015 and 2014, 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. Unvested shares totaled 18,995 and 21,950 as of December 31, 2016 and 2015, respectively.

10. Stockholders' Equity

Common Stock

The Company stopped accepting subscriptions for the Follow-on Offering on December 17, 2015 and all of the shares initially registered for the Follow-on Offering were issued on or before January 19, 2016. For the year ended December 31, 2016, the Company issued 0.1 million shares of common stock generating gross proceeds of $0.8 million. For the year ended December 31, 2015, the Company issued 76.8 million shares of common stock generating gross proceeds of $777.9 million. From inception through December 31, 2016, the Company issued 173.4 million shares of common stock generating gross proceeds of $1.7 billion in the Primary Offering.

Distribution Reinvestment Plan

The Company adopted the DRP through which common stockholders may elect to reinvest an amount equal to the distributions declared on their shares in additional shares of the Company's common stock in lieu of receiving cash distributions. In December

2015, the Company registered an additional 30.0 million shares to be offered pursuant to the DRP and continues to offer such shares. Prior to this amendment, the purchase price per share pursuant to the Initial DRP and the Follow-on DRP was $9.50 and $9.69, respectively.

In April 2016, the DRP was amended and restated to provide that, effective on ten days' notice, the price per share purchased pursuant to the DRP will be equal to estimated value per share of the Company's common stock which was $8.63 as of December 31, 2015.

In December 2016, upon the recommendation of the audit committee of the Company's board of directors, its board of directors, including all of the independent directors, approved and established an estimated value per share of our common stock of $9.10, as of June 30, 2016. The estimated value per share is based upon the estimated value of our assets less the estimated value of our liabilities as of June 30, 2016. The Company expects that the next estimated value per share will be based upon assets and liabilities as of June 30, 2017. Effective as of December 7, 2016, shares will be purchased at $9.10 pursuant to the DRP.

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

For the year ended December 31, 2016, the Company issued 7.6 million shares of common stock totaling $67.8 million of gross offering proceeds pursuant to the DRP. For the year ended December 31, 2015, the Company issued 4.8 million shares of common stock totaling $46.4 million of gross offering proceeds pursuant to the DRP. From inception through December 31, 2016, the Company issued 13.7 million shares of common stock, generating gross offering proceeds of $126.8 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 $0.00184426 per share, which is equivalent to an annualized distribution amount of $0.675 per share of the Company's 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, 2016, 2015 and 2014 (dollars in thousands):

	Distributions[1]		
Period	**Cash**	**DRP**	**Total**
2016			
First Quarter	$ 13,408	$ 16,827	$ 30,235
Second Quarter	13,580	16,915	30,495
Third Quarter	13,974	17,120	31,094
Fourth Quarter	14,261	17,057	31,318
Total	$ 55,223	$ 67,919	$ 123,142
2015			
First Quarter	$ 8,023	$ 10,143	$ 18,166
Second Quarter	8,772	11,068	19,840
Third Quarter	10,142	12,791	22,933
Fourth Quarter	12,035	15,297	27,332
Total	$ 38,972	$ 49,299	$ 88,271
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

(1) Represents distributions declared for the period, even though such distributions are actually paid to stockholders the month following such period. For the years ended December 31, 2016, 2015 and 2014, 100% of distributions paid represent a return of capital.

Share Repurchase Program

The Company adopted a share repurchase program that may enable stockholders to sell their shares to the Company in limited circumstances (the "Share Repurchase Program"). The Company may not repurchase shares unless a stockholder has held shares for one year. However, the Company may repurchase shares held less than one year in connection with a stockholder's death or qualifying disability. The Company is not obligated to repurchase shares under the Share Repurchase Program. The Company may amend, suspend or terminate the Share Repurchase Program at its discretion at any time, subject to certain notice requirements. For the year ended December 31, 2016, the Company repurchased 1.8 million shares of common stock for $16.1 million at an average price of $9.15 per share. For the year ended December 31, 2015, the Company repurchased 0.4 million shares of common stock for $3.9 million at an average price of $9.66 per share pursuant to the Share Repurchase Program. The Company funds repurchase requests received during a quarter with proceeds set aside for that purpose which are not expected to exceed proceeds received from its DRP. As of December 31, 2016, there were no unfulfilled repurchase requests.

11. Non-controlling Interests

Operating Partnership

Non-controlling interests include the aggregate limited partnership interests in the Operating Partnership held by limited partners, other than the Company. Income (loss) attributable to the non-controlling interests is based on the limited partners' ownership percentage of the Operating Partnership. Income (loss) allocated to the Operating Partnership non-controlling interests for the years ended December 31, 2016, 2015 and 2014 was de minimis.

Other

Other non-controlling interests represent third-party equity interests in ventures that are consolidated with the Company's financial statements. Net income (loss) attributable to the other non-controlling interests was $0.4 million for the year ended December 31, 2015 and de minimis for the years ended December 31, 2016 and 2014.

12. Fair Value

Fair Value Measurement

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

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

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

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

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

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

Healthcare-Related Securities

Investing VIEs

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

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

Fair Value Hierarchy

Financial assets and liabilities are recorded at fair value on a recurring basis are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following table presents financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2016 by level within the fair value hierarchy (dollars in thousands):

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Senior housing mortgage loans held in a securitization trust, at fair value	$ —	$ —	$ 553,707	$ 553,707
Financial Liabilities				
Senior housing mortgage obligations issued by a securitization trust, at fair value	$ —	$ —	$ 522,933	$ 522,933

The following table presents the changes in fair value of financial assets which are measured at fair value on a recurring basis using Level 3 inputs to determine fair value for the year ended December 31, 2016 (dollars in thousands):

Beginning balance	$ —
Purchases	580,418
Distributions	(654)
Unrealized gain (loss)	(26,057)
Ending balance	$ 553,707

The following table presents the changes in fair value of financial liabilities which are measured at fair value on a recurring basis using Level 3 inputs to determine fair value for the year ended December 31, 2016 (dollars in thousands):

Beginning balance	$	—
Purchases		549,942
Distributions		(654)
Unrealized (gain) loss		(26,355)
Ending balance	$	522,933

As of December 31, 2016, the Company had no financial assets and liabilities that were accounted for at fair value on a non-recurring basis.

For the year ended December 31, 2016, the Company recorded an unrealized loss of $26.1 million for financial assets for which the fair value option was elected. For the year ended December 31, 2016, the Company recorded an unrealized gain of $26.4 million for financial liabilities for which the fair value option was elected. These amounts, when incurred, are recorded net as unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, in the consolidated statements of operations.

Significant increases (decreases) in any one of the inputs described above in isolation may result in a significantly different fair value for the financial assets using such Level 3 inputs.

Fair Value Option

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

Fair Value of Financial Instruments

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

The following table presents the principal amount, carrying value and fair value of certain financial assets and liabilities as of December 31, 2016 and 2015 (dollars in thousands):

	December 31, 2016			December 31, 2015		
	Principal Amount	Carrying Value	Fair Value	Principal Amount	Carrying Value	Fair Value
Financial assets:[1]						
Real estate debt investments, net	$ 75,000	$ 74,558	$ 72,278	$ 193,411	$ 192,934	$ 194,277
Financial liabilities:[1]						
Mortgage notes payable, net	$ 1,236,221	$ 1,200,982	$ 1,147,406	$ 579,750	$ 570,985	$ 567,106

(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, Net

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.

13. Segment Reporting

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

- *Real Estate Equity* - Focused on equity investments, directly or through joint ventures, with a focus on properties in the mid-acuity senior housing sector, which the Company defines as ALF, MCF, SNF, ILF and CCRC. The Company's equity investments may also include MOB, hospitals, rehabilitation facilities and ancillary healthcare services businesses. The Company's investments are predominantly in the United States, but it also selectively makes international investments. The Company's healthcare properties generally operate under net leases or through management agreements with independent third-party operators.
- *Real Estate Debt* - Focused on originating, acquiring and asset managing healthcare-related debt investments and may include first mortgage loans, subordinate interests and mezzanine loans and participations in such loans, as well as preferred equity interests.
- *Healthcare-Related Securities* - Focused on investing in and asset managing healthcare-related securities primarily consisting of commercial mortgage-backed securities, commercial mortgage obligations and other securities backed primarily by loans secured by healthcare properties.
- *Corporate* - The corporate segment includes corporate level asset management and other fees - related party and general and administrative expenses.

The Company primarily generates rental and resident fee income from real estate equity investments and net interest income on real estate debt and securities investments. As of December 31, 2016, the Company's healthcare-related securities represent its investment in the Class B certificates of the securitization trust which are eliminated in consolidation. For the year ended December 31, 2016, gross revenues from two of the Company's operators, Watermark Retirement Communities and Holiday Retirement Communities were 49% and 39%, respectively, of total revenues. The following tables present segment reporting for the years ended December 31, 2016, 2015 and 2014 (dollars in thousands):

Statement of Operations:

Year Ended December 31, 2016	Real Estate Equity	Real Estate Debt	Healthcare-Related Securities	Corporate[1]	Subtotal	Investing VIE[2]	Total
Rental and resident fee income	$ 235,023	$ —	$ —	$ —	$ 235,023	$ —	$ 235,023
Net interest income on debt and securities	—	17,720	813 [3]	(328) [3]	18,205	765 [3]	18,970
Other revenue	1,466	—	—	119	1,585	—	1,585
Property operating expenses	(129,954)	—	—	—	(129,954)	—	(129,954)
Interest expense	(50,243)	—	—	—	(50,243)	—	(50,243)
Other expenses related to securitization trust	—	—	—	—	—	(765)	(765)
Transaction costs	(2,147)	—	(57)	—	(2,204)	—	(2,204)
Asset management and other fees - related party	—	—	—	(45,092)	(45,092)	—	(45,092)
General and administrative expenses	(775)	(84)	—	(23,984)	(24,843)	—	(24,843)
Depreciation and amortization	(81,786)	—	—	—	(81,786)	—	(81,786)
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net	—	—	(30)	328	298	—	298
Realized gain (loss) on investments and other	600	—	—	—	600	—	600
Gain (loss) on consolidation of unconsolidated venture	6,408	—	—	—	6,408	—	6,408
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	(21,408)	17,636	726	(68,957)	(72,003)	—	(72,003)
Equity in earnings (losses) of unconsolidated ventures	(62,175)	—	—	—	(62,175)	—	(62,175)
Income tax benefit (expense)	(7,104)	—	—	—	(7,104)	—	(7,104)
Net income (loss)	$ (90,687)	$ 17,636	$ 726	$ (68,957)	$ (141,282)	$ —	$ (141,282)

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

(2) Investing VIEs are not considered to be a segment that the Company conducts its business through, however U.S. GAAP requires the Company, as the primary beneficiary, to present the assets and liabilities of the securitization trust on its consolidated balance sheets and recognize the related interest income and interest expense, as net interest income on the consolidated statement of operations. Though U.S. GAAP requires this presentation, the Company views its investment in the securitization trust as a net investment in healthcare-related securities.

(3) Represents income earned from the healthcare-related securities purchased at a discount, recognized using the effective interest method had the transaction been recorded as an available for sale security, at amortized cost. During the year ended December 31, 2016, $0.3 million was attributable to discount accretion income and was eliminated in consolidation in the corporate segment. The corresponding interest expense is recorded in net interest income in the Investing VIE column.

Statement of Operations:

Year Ended December 31, 2015	Real Estate Equity	Real Estate Debt	Corporate[1]	Total
Rental and resident fee income	$ 91,512	$ —	$ —	$ 91,512
Interest income	—	17,763	—	17,763
Other revenue	810	1,131	—	1,941
Property operating expenses	(45,773)	—	—	(45,773)
Interest expense	(16,964)	—	(653)	(17,617)
Transaction costs	(5,765)	—	—	(5,765)
Asset management and other fees - related party	—	—	(33,385)	(33,385)
General and administrative expenses	(345)	(88)	(19,780)	(20,213)
Depreciation and amortization	(27,038)	—	—	(27,038)
Realized gain (loss), net	222	—	(943)	(721)
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	(3,341)	18,806	(54,761)	(39,296)
Equity in earnings (losses) of unconsolidated ventures	(49,046)	—	—	(49,046)
Income tax benefit (expense)	5,598	—	—	5,598
Net income (loss)	$ (46,789)	$ 18,806	$ (54,761)	$ (82,744)

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

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
Other revenue	—	—	—	—
Property operating expenses	(10,810)	—	—	(10,810)
Interest expense	(2,286)	—	(695)	(2,981)
Transaction costs	(3,405)	—	—	(3,405)
Asset management and other fees - related party	—	—	(8,220)	(8,220)
General and administrative expenses	(4)	(36)	(4,378)	(4,418)
Depreciation and amortization	(4,291)	—	—	(4,291)
Realized gain (loss), net	(156)	—	—	(156)
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	1,597	7,454	(13,293)	(4,242)
Equity in earnings (losses) of unconsolidated ventures	(12,127)	—	—	(12,127)
Income tax benefit (expense)	1,390	—	—	1,390
Net income (loss)	$ (9,140)	$ 7,454	$ (13,293)	$ (14,979)

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

The following table presents total assets by segment as of December 31, 2016 and 2015 (dollars in thousands):

Total Assets:	Real Estate Equity[1]	Real Estate Debt	Healthcare-Related Securities	Corporate[2]	Subtotal	Investing VIEs[3]	Total
December 31, 2016	$ 2,118,877	$ 75,204	$ 30,981	$ 177,299	$ 2,402,361	$ 555,848	$ 2,958,209
December 31, 2015	1,460,392	194,451	—	347,385	2,002,228	—	2,002,228

(1) Includes investments in unconsolidated joint ventures totaling $360.5 million and $534.5 million as of December 31, 2016 and 2015, respectively.
(2) Primarily includes unrestricted cash and cash equivalent balances.
(3) Investing VIEs are not considered to be a segment that the Company conducts its business through, however U.S. GAAP requires the Company, as the primary beneficiary, to present the assets and liabilities of the securitization trust on its consolidated balance sheets and recognize the related interest income and interest expense, as net interest income on the consolidated statement of operations. Though U.S. GAAP requires this presentation, the Company's management and chief decision makers view the Company's investment in the securitization trust as a net investment in healthcare-related securities. As such, the Company

has presented the statements of operations and balance sheets within this note in a manner consistent with the views of the Company's management and chief decision makers.

14. Subsequent Events

Distribution Reinvestment Plan

For the period from January 1, 2017 through March 24, 2017, the Company issued 1.8 million shares pursuant to the DRP, representing gross proceeds of $16.7 million.

Distributions

On March 15, 2017, the Company's board of directors approved a daily cash distribution of $0.001849315 per share of common stock for each of the three months ended June 30, 2017. 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, 2017 through March 24, 2017, the Company repurchased 0.9 million shares for a total of $8.6 million or a weighted average price of $9.19 per share under the Share Repurchase Program that enables stockholders to sell their shares to the Company in certain circumstances, including death or a qualifying disability. The Company funds repurchase requests received during a quarter with proceeds set aside for that purpose which are not expected to exceed proceeds received from its DRP.

Trilogy Joint Venture

In January 2017, in accordance with the joint venture agreement, the Company funded an additional pro-rata capital contribution of $5.3 million for a total contribution of $225.8 million. The additional funding related to certain business initiatives, including the exercise of certain purchase options.

New Investments

Bonaventure

In February 2017, the Company completed the acquisition of the Bonaventure portfolio, which is comprised of five ILF/ALF totaling 453 units located in Oregon and Washington, for a purchase price of $98.9 million, excluding escrows and subject to customary prorations and adjustments. The Company funded the acquisition with approximately $28.4 million of equity and obtained five ten-year fixed rate mortgage notes payable with total principal balance of $72.5 million.

Oak Cottage of Santa Barbara

In February 2017, the Company completed the acquisition of a 40 unit MCF located in Santa Barbara, California, for a purchase price of $18.6 million, excluding escrows and subject to customary prorations and adjustments. The Company funded the acquisition with approximately $16.2 million of equity and $3.5 million seller financing and intends to seek additional financing.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2016
(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[1]			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	$ 385	$ 600	$ 10,285	$ 10,885	$ 892	$ 9,993	Oct-13	40 years
Leawood, KS	—	900	7,100	—	900	7,100	8,000	623	7,377	Oct-13	40 years
Skaneateles, NY	2,090	400	2,600	—	400	2,600	3,000	218	2,782	Oct-13	40 years
Spring Hill, KS	—	430	6,570	—	430	6,570	7,000	562	6,438	Oct-13	40 years
Milford, OH	18,760	1,160	14,440	1,315	1,160	15,755	16,915	1,523	15,392	Dec-13	40 years
Smyrna, GA	7,029	825	9,175	29	825	9,204	10,029	746	9,283	Dec-13	40 years
Denver, CO	21,500	4,300	27,200	7,440	4,300	34,640	38,940	2,487	36,453	Jan-14	40 years
Cheektowaga, NY	8,612	300	12,200	113	300	12,313	12,613	957	11,656	Feb-14	40 years
Frisco, TX	20,000	3,100	35,874	777	3,100	36,651	39,751	2,886	36,865	Feb-14	40 years
Bohemia, NY	24,946	4,258	27,805	157	4,258	27,962	32,220	1,836	30,384	Sep-14	40 years
Hauppauge, NY	15,135	2,086	18,495	1,280	2,086	19,775	21,861	1,286	20,575	Sep-14	40 years
Islandia, NY	37,191	8,437	37,198	202	8,437	37,400	45,837	2,500	43,337	Sep-14	40 years
Westbury, NY	16,478	2,506	19,163	78	2,506	19,241	21,747	1,243	20,504	Sep-14	40 years
Bellevue, WA	30,900	28,001	18,208	1,257	28,001	19,465	47,466	988	46,478	Jun-15	40 years
Kalamazoo, MI	34,800	4,621	30,870	698	4,621	31,568	36,189	1,520	34,669	Jun-15	40 years
Oklahoma City, OK	3,000	3,104	6,119	610	3,104	6,729	9,833	560	9,273	Jun-15	40 years
Palm Desert, CA	16,495	5,365	38,889	857	5,365	39,746	45,111	1,900	43,211	Jun-15	40 years
Sarasota, FL	55,592	12,845	64,403	1,588	12,845	65,991	78,836	2,982	75,854	Jun-15	40 years
Dana Point, CA	32,757	6,286	41,199	163	6,286	41,362	47,648	1,840	45,808	Jun-15	40 years
Tarboro, NC	14,812	2,400	17,800	875	2,400	18,675	21,075	967	20,108	Jun-15	40 years
St. Petersburg, FL	34,109	8,920	44,137	1,936	8,920	46,073	54,993	2,311	52,682	Jun-15	40 years
Crystal Lake, IL	27,630	7,390	28,210	727	7,390	28,937	36,327	1,391	34,936	Jun-15	40 years
Southfield, MI	9,000	2,240	11,924	605	2,240	12,529	14,769	848	13,921	Jun-15	40 years
Independence, MO	15,600	1,280	17,090	332	1,280	17,422	18,702	922	17,780	Jun-15	40 years
Tucson, AZ	57,375	7,370	60,719	785	7,370	61,504	68,874	2,899	65,975	Jun-15	40 years
Millbrook, NY	24,825	7,660	20,854	2,239	7,660	23,093	30,753	1,145	29,608	Jun-15	40 years
Tuckahoe, NY	12,755	4,870	26,980	226	4,870	27,206	32,076	1,217	30,859	Jun-15	40 years
Alexandria, VA	40,350	7,950	41,124	682	7,950	41,806	49,756	1,929	47,827	Jun-15	40 years
Grand Junction, CO	19,965	2,512	26,436	97	2,512	26,533	29,045	756	28,289	Mar-16	40 years
Auburn, CA	24,685	1,685	18,429	139	1,685	18,568	20,253	493	19,760	Mar-16	40 years
Columbia, MO	23,258	1,612	23,512	173	1,612	23,685	25,297	613	24,684	Mar-16	40 years
Lees Summit, MO	27,855	1,256	20,492	309	1,256	20,801	22,057	539	21,518	Mar-16	40 years
Kennewick, WA	7,865	1,162	18,925	113	1,162	19,038	20,200	517	19,683	Mar-16	40 years
Grapevine, TX	22,883	1,842	18,135	455	1,842	18,590	20,432	455	19,977	Mar-16	40 years
Plano, TX	16,485	2,188	14,852	154	2,188	15,006	17,194	444	16,750	Mar-16	40 years
El Cajon, CA	21,504	2,345	14,728	110	2,345	14,838	17,183	372	16,811	Mar-16	40 years
Austin, TX	27,180	3,998	19,407	373	3,998	19,780	23,778	540	23,238	Mar-16	40 years
Joliet, IL	15,278	1,465	23,416	181	1,465	23,597	25,062	631	24,431	Mar-16	40 years
Renton, WA	19,513	2,627	20,461	238	2,627	20,699	23,326	521	22,805	Mar-16	40 years
Normandy Park, WA	16,628	2,020	16,401	443	2,020	16,844	18,864	412	18,452	Mar-16	40 years
Guilford, CT	24,895	6,689	27,467	207	6,689	27,674	34,363	1,289	33,074	Mar-16	40 years
Las Cruces, NM	11,461	1,560	15,084	93	1,560	15,177	16,737	424	16,313	Mar-16	40 years
Corpus Christi, TX	19,058	2,250	20,133	261	2,250	20,394	22,644	580	22,064	Mar-16	40 years
Bakersfield, CA	17,249	1,821	20,997	190	1,821	21,187	23,008	556	22,452	Mar-16	40 years
Fenton, MO	25,155	2,397	22,207	246	2,397	22,453	24,850	578	24,272	Mar-16	40 years
Sun City West, AZ	26,306	2,669	29,046	433	2,669	29,479	32,148	806	31,342	Mar-16	40 years
Fairport, NY	16,928	1,444	19,421	64	1,444	19,485	20,929	555	20,374	Mar-16	40 years

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2016
(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[1]			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
Grand Junction, CO	10,230	1,141	12,518	138	1,141	12,656	13,797	336	13,461	Mar-16	40 years
East Amherst, NY	18,983	2,858	18,273	173	2,858	18,446	21,304	480	20,824	Mar-16	40 years
El Paso, TX	12,510	1,601	14,096	140	1,601	14,236	15,837	365	15,472	Mar-16	40 years
Bellingham, WA	24,426	2,230	18,798	273	2,230	19,071	21,301	490	20,811	Mar-16	40 years
Tacoma, WA	30,787	7,934	32,415	233	7,934	32,648	40,582	1,088	39,494	Mar-16	40 years
Apple Valley, CA	21,850	1,162	24,619	74	1,162	24,693	25,855	641	25,214	Mar-16	40 years
Bangor, ME	21,998	2,449	23,194	138	2,449	23,332	25,781	737	25,044	Mar-16	40 years
Palatine, IL	20,604	1,214	26,983	113	1,214	27,096	28,310	656	27,654	Mar-16	40 years
Sandy, UT	16,185	2,795	19,125	58	2,795	19,183	21,978	510	21,468	Mar-16	40 years
Lodi, CA	20,605	2,847	21,144	52	2,847	21,196	24,043	565	23,478	Mar-16	40 years
Santa Rosa, CA	28,630	5,380	26,173	205	5,380	26,378	31,758	700	31,058	Mar-16	40 years
Groton, CT	18,029	3,654	21,867	185	3,654	22,052	25,706	704	25,002	Mar-16	40 years
Clovis, CA	19,223	1,812	21,713	71	1,812	21,784	23,596	576	23,020	Mar-16	40 years
Frisco, TX	—	1,130	—	12,599	1,130	12,599	13,729	66	13,663	Oct-16	40 years
Total	$ 1,236,221	$ 221,353	$ 1,366,713	$ 44,087	$ 221,353	$ 1,410,800	$ 1,632,153	$ 60,173	$ 1,571,980		

(1) The aggregate cost for federal income tax purposes is approximately $1.7 billion.

The following table presents changes in the Company's operating real estate portfolio for the years ended December 31, 2016 and 2015 and (dollars in thousands):

	Years Ended December 31,	
	2016	2015
Beginning balance	$ 851,639	$ 263,826
Property acquisitions	751,086	579,973
Improvements	29,428	12,892
Reclassification[1]	—	(5,052)
Ending balance[2]	$ 1,632,153	$ 851,639

(1) Represents a measurement period adjustment of operating real estate acquired in 2014 was reclassified to intangible assets in connection with the final purchase price allocation for the Arbors portfolio.
(2) The aggregate cost of the properties are approximately $23.0 million higher for federal income tax purposes as of December 31, 2016.

The following table presents changes in accumulated depreciation for the years ended December 31, 2016 and 2015 (dollars in thousands):

	As of December 31,	
	2016	2015
Beginning balance	$ 19,386	$ 4,417
Depreciation expense	40,787	14,969
Ending balance	$ 60,173	$ 19,386

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE
December 31, 2016
(Dollars in Thousands)

Asset Type:	Location / Description	Count	Fixed Rate	Maturity Date[1]	Periodic Payment Terms[2]	Prior Liens[3]	Principal Amount	Carrying Value[5]	Principal Amount of Loans Subject to Delinquent Principal or Interest
Mezzanine loans:									
Espresso	Various / SNF / ALF	1	10%	Jan-21	I/O	787,587	75,000	74,558	—

(1) Reflects the initial maturity date of the investment and does not consider any options to extend beyond such date.
(2) Interest Only, or I/O; principal amount due in full at maturity.
(3) Represents only third-party liens.
(4) The federal income tax basis is approximately $74.6 million.

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

	Years Ended December 31,		
	2016	2015	2014
Beginning balance	$ 192,934	$ 146,267	$ 11,250
Additions:			
Principal amount of new loans and additional funding on existing loans	—	75,000	134,637
Acquisition cost (fees) on new loans	—	750	1,513
Origination fees received on new loans	—	(1,500)	(992)
Deductions:			
Repayment of principal	(118,411)	(27,476)	—
Amortization of acquisition costs, fees, premiums and discounts	35	(107)	(141)
Ending balance	$ 74,558	$ 192,934	$ 146,267

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

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

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

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

Internal Control over Financial Reporting

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

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

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we carried out an evaluation of the effectiveness of its internal control over financial reporting as of December 31, 2016 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, 2016.

(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.

Item 9B Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance*

Item 11. Executive Compensation*

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Item 13. Certain Relationships and Related Transactions and Director Independence*

Item 14. Principal Accountant Fees and Services*

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* The information that is required by Items 10, 11, 12, 13 and 14 (other than the information included in this Annual Report on Form 10-K) is incorporated herein by reference from the definitive proxy statement relating to our 2017 Annual Meeting of Stockholders, which is to be filed with the U.S. Securities and Exchange Commission pursuant to Regulation 14A under the Exchange Act, no later than 120 days after the end of our fiscal year ended December 31, 2016.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)1. Consolidated Financial Statements and (a)2. Financial Statement Schedules are included in Part II, Item 8. "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2016 and 2015
Consolidated Statements of Operations for the years ended December 31, 2016, 2015 and 2014
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2016, 2015 and 2014
Consolidated Statements of Equity for the years ended December 31, 2016, 2015 and 2014
Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014
Notes to the Consolidated Financial Statements
Schedule III - Real Estate and Accumulated Depreciation as of December 31, 2016
Schedule IV - Mortgage Loans on Real Estate as of December 31, 2016

(a)3. Exhibit Index:

Exhibit Number	Description of Exhibit
3.1	Articles of Amendment and Restatement of NorthStar Healthcare Income, Inc. (filed as Exhibit 3.1 to Pre-Effective Amendment No. 7 to the Company's Registration Statement on Form S-11 (File No. 333-170802) and incorporated herein by reference)
3.2	Certificate of Correction of the Articles of Amendment and Restatement of NorthStar Healthcare Income, Inc. (filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 and incorporated herein by reference)
3.3	Fourth Amended and Restated Bylaws of NorthStar Healthcare Income, Inc. (filed as Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 and incorporated herein by reference)
4.1	Distribution Reinvestment Plan (filed as Exhibit 4.2 to Pre-Effective Amendment No. 2 to the Company's Registration Statement on Form S-11 (File No. 333-199125) and incorporated herein by reference)
4.2	Amended and Restated Distribution Reinvestment Plan (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on April 8, 2016 and incorporated herein by reference)
10.1	Advisory Agreement (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 1, 2014 and incorporated herein by reference)
10.2	Amended and Restated Limited Partnership Agreement of NorthStar Healthcare Income Operating Partnership, LP (filed as Exhibit 10.3 to Pre-Effective Amendment No. 7 to the Company's Registration Statement on Form S-11 (File No. 333-170802) and incorporated herein by reference)
10.3	First Amendment to Amended and Restated Limited Partnership Agreement of NorthStar Healthcare Income Operating Partnership, LP (filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 and incorporated herein by reference)
10.4	Second Amendment to Amended and Restated Limited Partnership Agreement of NorthStar Healthcare Income Operating Partnership, LP (filed as Exhibit 10.4 to Post-Effective Amendment No. 9 to the Company's Registration Statement on Form S-11 (File No. 333-170802) and incorporated herein by reference)
10.5	NorthStar Healthcare Income, Inc. Amended and Restated Long Term Incentive Plan (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K on February 4, 2013 and incorporated herein by reference)
10.6	NorthStar Healthcare Income, Inc. Amended and Restated Independent Directors Compensation Plan (filed as Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 and incorporated herein by reference)
10.7	Form of Restricted Stock Award Certificate (filed as Exhibit 10.6 to Pre-Effective Amendment No. 4 to the Company's Registration Statement on Form S-11 (File No. 333-170802) and incorporated herein by reference)
10.8	Fourth Amended and Restated Distribution Support Agreement, by and between NorthStar Realty Finance Corp. and NorthStar Healthcare Income, Inc. (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 and incorporated herein by reference)
10.9	Form of Indemnification Agreement (filed as Exhibit 10.8 to Pre-Effective Amendment No. 6 to the Company's Registration Statement on Form S-11 (File No. 333-170802) and incorporated herein by reference)
10.10	Limited Liability Company Agreement of Eclipse Investment, LLC, dated as of May 7, 2014, by and between FC Eclipse Investment, LLC and Eclipse Health Holdings-T, LLC (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 13, 2014 and incorporated herein by reference)
10.11	Amended and Restated Partnership Agreement of Healthcare GA Holdings, General Partnership, dated as of January 13, 2015 (filed as Exhibit 10.58 to Post-Effective Amendment No. 11 to the Company's Registration Statement on Form S-11 (File No. 333-170802) and incorporated herein by reference)
10.12	Purchase and Sale Agreement and Joint Escrow Instructions, dated as of February 18, 2015, by and among the Seller and Fountains Portfolio Owner, LLC (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 15, 2015 and incorporated herein by reference)
10.13	Amendment to Purchase and Sale Agreement and Joint Escrow Instructions, dated as of March 25, 2015, by and among the Seller and Fountains Portfolio Owner, LLC (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 15, 2015 and incorporated herein by reference)
10.14	Second Amendment to Purchase and Sale Agreement and Joint Escrow Instructions, dated as of April 1, 2015, by and among the Seller and Fountains Portfolio Owner, LLC (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on April 15, 2015 and incorporated herein by reference)
10.15	Third Amendment to Purchase and Sale Agreement and Joint Escrow Instructions, dated as of April 8, 2015, by and among the Seller and Fountains Portfolio Owner, LLC (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed on April 15, 2015 and incorporated herein by reference)

Exhibit Number	Description of Exhibit
10.16	Fourth Amendment to Purchase and Sale Agreement and Joint Escrow Instructions, dated as of April 9, 2015, by and among the Seller and Fountains Portfolio Owner, LLC (filed as Exhibit 10.5 to the Company's Current Report on Form 8-K filed on April 15, 2015 and incorporated herein by reference)
10.17	Partial Assignment and Assumption of, and Fifth Amendment to, Purchase and Sale Agreement and Joint Escrow Instructions, dated as of June 1, 2015, by and among the sellers identified therein, Fountains Portfolio Owner, LLC and Watermark Fountains Owner, LLC (filed as exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 5, 2015 and incorporated herein by reference)
10.18	Limited Liability Company Agreement of Watermark Fountains Owner, LLC (filed as Exhibit 10.6 to the Company's Current Report on Form 8-K filed on April 15, 2015 and incorporated herein by reference)
10.19	Purchase and Sale Agreement, dated as of April 1, 2015, by and among Winterfell Healthcare Holdings - T, LLC, Winterfell Healthcare Holdings - NT-HCI, LLC and the seller entities party thereto (filed as Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 and incorporated herein by reference)
10.20	Partnership Agreement, dated as of May 19, 2015, by and between Winterfell Healthcare Holdings - T, LLC and Winterfell Healthcare Holdings - NT-HCI, LLC (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 26, 2015 and incorporated herein by reference)
10.21	Joint Venture Governing Documents, each dated as of July 1, 2015, by and among FC Domino Investors, LLC, Domino MI6 Investors, LLC, Domino Holdings NT-HCI, LLC, FC Domino General Partner, LLC, SSCIP VI Splitter, LP, SSCIP VI SLP, LLC, FC SLP VI, LLC, Formation Capital Asset Management III, LLC and Safanad SSCIP VI Management, LLC, as applicable (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 8, 2015 and incorporated herein by reference)
10.22	Equity Purchase Agreement, dated as of September 11, 2015, by and among Trilogy Investors, LLC, Trilogy Holdings LP, Trilogy Holdings LLC, Trilogy Holdings Corporation, the sellers identified therein and Trilogy Real Estate Investment Trust (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 15, 2015 and incorporated herein by reference)
10.23	Limited Liability Company Agreement of Trilogy REIT Holdings, LLC, dated as of September 11, 2015, by and between GACH3 Trilogy JV, LLC and Trilogy Holdings NT-HCI, LLC (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 15, 2015 and incorporated herein by reference)
10.24	Purchase and Sale Agreement Regarding Interests in Limited Liability Companies, dated as of February 24, 2016, by and between Winterfell Healthcare Holdings - T, LLC, Winterfell Healthcare-T CAM2, LLC and Winterfell Healthcare Holdings - NT-HCI, LLC and Winterfell Healthcare NT-HCI CAM2, LLC (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 1, 2016 and incorporated herein by reference)
21.1*	Significant Subsidiaries of the Registrant
23.1*	Consent of Grant Thornton LLP
23.2	Consent of Delap LLP (filed as Exhibit 23.1 to the Company's Current Report on Form 8-K filed on May 17, 2016 and incorporated herein by reference)
24.1*	Power of Attorney (included on signature page hereto)
31.1*	Certification by the Chief Executive Officer pursuant to 17 CFR 240.13a-14(a)/15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification by the Chief Financial Officer pursuant to 17 CFR 240.13a-14(a)/15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification by the Chief Executive Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification by the Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101*	The following materials from the NorthStar Healthcare Income, Inc. Annual Report on Form 10-K for the year ended December 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2016 and 2015; (ii) Consolidated Statements of Operations for the years ended December 31, 2016, 2015 and 2014; (iii) Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2016, 2015 and 2014; (iv) Consolidated Statements of Equity for the years ended December 31, 2016, 2015 and 2014; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014; and (vi) Notes to Consolidated Financial Statements

* Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NorthStar Healthcare Income, Inc.

Date: March 30, 2017

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

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Daniel R. Gilbert and Ann B. Harrington and each of them severally, his true and lawful attorney-in-fact with power of substitution and re-substitution to sign in his name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the U.S. Securities and Exchange Commission in connection with this Annual Report on Form 10-K and any and all amendments hereto, as fully for all intents and purposes as he might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his substitute or substitutes, may lawfully do or cause to be done by virtue hereof. Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on behalf of the Registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ RONALD J. JEANNEAULT Ronald J. Jeanneault	Chief Executive Officer and President (Principal Executive Officer)	March 30, 2017
/s/ FRANK V. SARACINO Frank V. Saracino	Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)	March 30, 2017
/s/ DANIEL R. GILBERT Daniel R. Gilbert	Executive Chairman	March 30, 2017
/s/ ROBERT C. GATENIO Robert C. Gatenio	Vice Chairman	March 30, 2017
/s/ DANIEL J. ALTOBELLO Daniel J. Altobello	Director	March 30, 2017
/s/ GREGORY A. SAMAY Gregory A. Samay	Director	March 30, 2017
/s/ JACK F. SMITH, JR. Jack F. Smith, Jr.	Director	March 30, 2017

Exhibit 21.1

NORTHSTAR HEALTHCARE INCOME, INC.
List of Significant Subsidiaries

Entity Name	Formation Jurisdiction
NorthStar Healthcare Income Operating Partnership, LP	Delaware
TRS NT-HCI, LLC	Delaware
Fountains Portfolio Owner, LLC	Delaware
Fountains Property NT-HCI, LLC	Delaware
Fountains Operations NT-HCI, LLC	Delaware
Watermark Fountains Owner, LLC	Delaware
Watermark Fountains Operator, LLC	Delaware
Trilogy Holdings NT-HCI, LLC	Delaware
Winterfell Healthcare Holdings NT-HCI, LLC	Delaware
Winterfell Healthcare Owner, LLC	Delaware

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated March 30, 2017, with respect to the consolidated financial statements and schedules included in the Annual Report of NorthStar Healthcare Income, Inc. on Form 10-K for the year ended December 31, 2016. We hereby consent to the incorporation by reference of said report in the Registration Statement of NorthStar Healthcare Income, Inc. on Form S-3D (File No. 333-208377), effective December 8, 2015, pertaining to the Distribution Reinvestment Plan.

/s/ Grant Thornton LLP

New York, New York
March 30, 2017

Exhibit 31.1

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

I, Ronald J. Jeanneault, certify that:

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

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

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

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

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

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

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

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

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

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

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

By: /s/ RONALD J. JEANNEAULT
Name: Ronald J. Jeanneault
Title: *Chief Executive Officer and President*
Date: March 30, 2017

Exhibit 31.2

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

I, Frank V. Saracino, certify that:

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

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

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

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

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

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

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

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

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

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

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

By: /s/ FRANK V. SARACINO
Name: Frank V. Saracino
Title: *Chief Financial Officer and Treasurer*
Date: March 30, 2017

Exhibit 32.1

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

In connection with the Annual Report on Form 10-K of NorthStar Healthcare Income, Inc. (the "Company") for the fiscal year ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Ronald J. Jeanneault, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

By: /s/ RONALD J. JEANNEAULT
Ronald J. Jeanneault
Chief Executive Officer and President
Date: March 30, 2017

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

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

Exhibit 32.2

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

In connection with the Annual Report on Form 10-K of NorthStar Healthcare Income, Inc. (the "Company") for the fiscal year ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Frank V. Saracino, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

By: /s/ FRANK V. SARACINO
Frank V. Saracino
Chief Financial Officer and Treasurer
Date: March 30, 2017

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

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