UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017

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)

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

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

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

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

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

The Company has one class of common stock, $0.01 par value per share, 186,111,082 shares outstanding as of November 13, 2017.

NORTHSTAR HEALTHCARE INCOME, INC.

FORM 10-Q

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may," "will," "should," "potential," "intend," "expect," "seek," "anticipate," "estimate," "believe," "could," "project," "predict," "continue," "future" or other similar words or expressions. Forward-looking statements are not guarantees of performance and are based on certain assumptions, discuss future expectations, describe plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Such statements include, but are not limited to, those relating to our ability to make distributions to our stockholders, our reliance on our advisor and our sponsor, the operating performance of our investments, our financing needs, the effects of our current strategies and investment activities and our ability to effectively deploy capital. Our ability to predict results or the actual effect of plans or strategies is inherently uncertain, 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;
- 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 Quarterly Report on Form 10-Q are based on information available to us on the date hereof and we are under no duty to update any of the forward-looking statements after the date of this report to conform these statements to actual results.

Factors that could have a material adverse effect on our operations and future prospects are set forth in our filings with the U.S. Securities and Exchange Commission, or the SEC, including Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and in Part II, Item 1A of this Quarterly Report on Form 10-Q under the heading “Risk Factors.” The risk factors set forth in our filings with the SEC could cause our actual results to differ significantly from those contained in any forward-looking statement contained in this report.

Part I. Financial Information

Item 1. Financial Statements

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Per Share Data)

	September 30, 2017 (Unaudited)	December 31, 2016
Assets		
Cash and cash equivalents	$ 27,395	$ 223,102
Restricted cash	28,620	28,790
Operating real estate, net	1,870,095	1,571,980
Investments in unconsolidated ventures (refer to Note 4)	328,951	360,534
Real estate debt investments, net	74,626	74,558
Senior housing mortgage loans held in a securitization trust, at fair value	552,087	553,707
Receivables, net	16,402	12,260
Deferred costs and intangible assets, net	87,005	116,404
Other assets	15,522	16,874
Total assets(1)	$ 3,000,703	$ 2,958,209
Liabilities		
Mortgage and other notes payable, net	$ 1,400,456	$ 1,200,982
Senior housing mortgage obligations issued by a securitization trust, at fair value	520,205	522,933
Due to related party	5,406	219
Escrow deposits payable	4,461	3,209
Distribution payable	10,371	10,579
Accounts payable and accrued expenses	30,580	25,105
Other liabilities	2,841	3,208
Total liabilities(1)	1,974,320	1,766,235
Commitments and contingencies		
Equity		
NorthStar Healthcare Income, Inc. Stockholders' Equity		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding as of September 30, 2017 and December 31, 2016	—	—
Common stock, $0.01 par value, 400,000,000 shares authorized, 186,914,418 and 185,034,967 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively	1,869	1,850
Additional paid-in capital	1,683,081	1,666,479
Retained earnings (accumulated deficit)	(667,608)	(480,516)
Accumulated other comprehensive income (loss)	997	(1,188)
Total NorthStar Healthcare Income, Inc. stockholders' equity	1,018,339	1,186,625
Non-controlling interests	8,044	5,349
Total equity	1,026,383	1,191,974
Total liabilities and equity	$ 3,000,703	$ 2,958,209

(1) Represents the consolidated assets and liabilities of NorthStar Healthcare Income Operating Partnership, LP (the "Operating Partnership"). The Operating Partnership is a consolidated variable interest entity ("VIE"), of which the Company is the sole general partner and owns approximately 99.99%. As of September 30, 2017, the Operating Partnership includes $1.2 billion and $949.5 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)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Property and other revenues				
Resident fee income	$ 33,233	$ 26,436	$ 93,060	$ 76,721
Rental income	40,507	38,143	114,189	94,165
Other revenue	661	594	2,191	1,063
Total property and other revenues	74,401	65,173	209,440	171,949
Net interest income				
Interest income on debt investments	1,940	5,072	5,755	15,112
Interest income on mortgage loans held in a securitized trust	6,536	—	19,503	—
Interest expense on mortgage obligations issued by a securitization trust	(4,919)	—	(14,662)	—
Net interest income	3,557	5,072	10,596	15,112
Expenses				
Real estate properties - operating expenses	42,981	35,489	118,526	93,868
Interest expense	15,687	13,424	44,479	34,951
Other expenses related to securitization trust	981	—	2,947	—
Transaction costs	3,814	31	6,778	1,563
Asset management and other fees - related party	13,299	8,579	32,716	36,659
General and administrative expenses	3,041	3,980	8,392	20,538
Depreciation and amortization	24,454	10,678	69,223	35,930
Total expenses	104,257	72,181	283,061	223,509
Other income (loss)				
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net	384	—	1,108	—
Realized gain (loss) on investments and other	—	—	118	411
Gain (loss) on consolidation of unconsolidated venture	—	—	—	6,408
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	(25,915)	(1,936)	(61,799)	(29,629)
Equity in earnings (losses) of unconsolidated ventures	(18,557)	(15,604)	(31,234)	(47,073)
Income tax benefit (expense)	(15)	36	(56)	(7,088)
Net income (loss)	(44,487)	(17,504)	(93,089)	(83,790)
Net (income) loss attributable to non-controlling interests	97	(64)	27	55
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (44,390)	$ (17,568)	$ (93,062)	$ (83,735)
Net income (loss) per share of common stock, basic/diluted	$ (0.24)	$ (0.10)	$ (0.50)	$ (0.46)
Weighted average number of shares of common stock outstanding, basic/diluted	186,825,812	183,268,411	186,293,783	181,717,977
Distributions declared per share of common stock	$ 0.17	$ 0.17	$ 0.51	$ 0.51

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in Thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income (loss)	$ (44,487)	$ (17,504)	$ (93,089)	$ (83,790)
Other comprehensive income (loss)				
Foreign currency translation adjustments related to investment in unconsolidated venture	605	—	2,185	—
Total other comprehensive income (loss)	605	—	2,185	—
Comprehensive income (loss)	(43,882)	(17,504)	(90,904)	(83,790)
Comprehensive (income) loss attributable to non-controlling interests	97	(64)	27	55
Comprehensive income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (43,785)	$ (17,568)	$ (90,877)	$ (83,735)

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

(Dollars and Shares in Thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Company's Stockholders' Equity	Non-controlling Interests	Total Equity
	Shares	Amount						
Balance as of December 31, 2015	179,137	$ 1,791	$ 1,614,452	$ (216,099)	$ —	$ 1,400,144	$ 5,356	$ 1,405,500
Net proceeds from issuance of common stock	81	1	295	—	—	296	—	296
Issuance and amortization of equity-based compensation	14	—	166	—	—	166	—	166
Non-controlling interests - contributions	—	—	—	—	—	—	291	291
Non-controlling interests - distributions	—	—	—	—	—	—	(291)	(291)
Shares redeemed for cash	(1,765)	(18)	(16,120)	—	—	(16,138)	—	(16,138)
Distributions declared	—	—	—	(123,142)	—	(123,142)	—	(123,142)
Proceeds from distribution reinvestment plan	7,568	76	67,686	—	—	67,762	—	67,762
Other comprehensive income (loss)	—	—	—	—	(1,188)	(1,188)	—	(1,188)
Net income (loss)	—	—	—	(141,275)	—	(141,275)	(7)	(141,282)
Balance as of December 31, 2016	185,035	$ 1,850	$ 1,666,479	$ (480,516)	$ (1,188)	$ 1,186,625	$ 5,349	$ 1,191,974
Issuance and amortization of equity-based compensation	20	—	146	—	—	146	—	146
Non-controlling interests - contributions	—	—	—	—	—	—	2,952	2,952
Non-controlling interests - distributions	—	—	—	—	—	—	(230)	(230)
Shares redeemed for cash	(3,700)	(37)	(34,081)	—	—	(34,118)	—	(34,118)
Distributions declared	—	—	—	(94,030)	—	(94,030)	—	(94,030)
Proceeds from distribution reinvestment plan	5,559	56	50,537	—	—	50,593	—	50,593
Other comprehensive income (loss)					2,185	2,185		2,185
Net income (loss)	—	—	—	(93,062)	—	(93,062)	(27)	(93,089)
Balance as of September 30, 2017 (Unaudited)	186,914	$ 1,869	$ 1,683,081	$ (667,608)	$ 997	$ 1,018,339	$ 8,044	$ 1,026,383

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2017	**2016**
Cash flows from operating activities:		
Net income (loss)	$ (93,089)	$ (83,790)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Equity in (earnings) losses of unconsolidated ventures	31,234	47,073
Depreciation and amortization	69,223	35,930
Amortization of below market debt	1,988	—
Straight-line rental income, net	(1,287)	(1,538)
Amortization of premium/accretion of discount on investments	(68)	(28)
Amortization of deferred financing costs	1,220	1,628
Amortization of equity-based compensation	146	117
Deferred income tax (benefit) expense, net	—	7,026
Realized (gain) loss on investments and other	(118)	(411)
(Gain) loss on consolidation of unconsolidated venture	—	(6,408)
Unrealized (gain) loss on senior housing mortgage loans and debt held in securitization trust, net	(1,108)	—
Allowance for uncollectible accounts	943	—
Distributions of cumulative earnings from unconsolidated ventures	427	—
Changes in assets and liabilities:		
Restricted cash	(3,734)	(2,276)
Receivables	(3,623)	(530)
Other assets	(1,993)	(1,099)
Due to related party	5,187	(384)
Escrow deposits payable	1,252	1,467
Accounts payable and accrued expenses	5,474	2,138
Other liabilities	(366)	(396)
Net cash provided by (used in) operating activities	11,708	(1,481)
Cash flows from investing activities:		
Acquisition of operating real estate investments	(297,955)	(139,618)
Improvement of operating real estate investments	(13,463)	(22,476)
Repayment on real estate debt investments	—	487
Investment in unconsolidated ventures	(9,099)	(20,591)
Distributions in excess of cumulative earnings from unconsolidated ventures	11,206	16,470
Change in restricted cash	692	(2,344)
Other assets	3,288	798
Net cash provided by (used in) investing activities	(305,331)	(167,274)
Cash flows from financing activities:		
Borrowing from mortgage notes	173,690	18,760
Repayment of mortgage notes	(1,834)	(10,500)
Payment of deferred financing costs	(2,111)	(4,016)
Change in restricted cash	3,212	2,132
Net proceeds from issuance of common stock	—	405
Shares redeemed for cash	(34,118)	(9,931)
Distributions paid on common stock	(94,238)	(91,658)
Proceeds from distribution reinvestment plan	50,593	50,877
Contributions from non-controlling interests	2,952	264
Distributions to non-controlling interests	(230)	(278)
Net cash provided by (used in) financing activities	97,916	(43,945)
Net increase (decrease) in cash and cash equivalents	(195,707)	(212,700)
Cash and cash equivalents- beginning of period	223,102	354,229
Cash and cash equivalents- end of period	$ 27,395	$ 141,529

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Dollars in Thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
Supplemental disclosure of non-cash investing and financing activities:		
Escrow deposits related to real estate debt investments	$ —	$ 25
Accrued distribution payable	10,371	10,168
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	21,685	648,211
Change in carrying value of securitization trust (VIE asset/liability)	2,728	—
Debt financing provided by seller for investment acquisition	3,500	—

Refer to accompanying notes to consolidated financial statements.

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 may consist of first mortgage loans and mezzanine loans. The Company's real estate securities investments may include commercial mortgage-backed securities ("CMBS"), and other securities backed primarily by loans secured by 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, which the Company refers to as the mergers, with Colony NorthStar surviving the mergers and succeeding NSAM as the Company's sponsor (the "Sponsor"). 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 (the "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.

Colony NorthStar manages capital on behalf of its stockholders, as well as institutional and retail investors in private funds, non-traded and traded REITs and registered investment companies.

Substantially all of the Company's business is conducted through NorthStar Healthcare Income Operating Partnership, LP (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. The limited partners of the Operating Partnership are NorthStar Healthcare Income Advisor, LLC (the "Prior Advisor") and NorthStar Healthcare Income OP Holdings, LLC (the "Special Unit Holder"), each an affiliate of the Sponsor. The Prior Advisor invested $1,000 in the Operating Partnership in exchange for common units and the Special Unit Holder invested $1,000 in the Operating Partnership and was issued a separate class of limited partnership units (the "Special Units"), which are collectively recorded as non-controlling interests on the accompanying consolidated balance sheets as of September 30, 2017 and December 31, 2016. As the Company issued shares, it contributed substantially all of the proceeds from its continuous, public offerings to the Operating Partnership as a capital contribution. As of September 30, 2017, 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.

From February 6, 2015 to January 19, 2016, the Company conducted a follow-on public offering of up to $700.0 million in shares (the "Follow-on Offering"), which included up to $500.0 million in shares pursuant to its follow-on primary offering (the "Follow-on Primary Offering") and $200.0 million in shares pursuant to its follow-on distribution reinvestment plan (the "Follow-on DRP"). 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.

From inception through November 13, 2017, the Company raised total gross proceeds of $1.9 billion, including $188.6 million in DRP proceeds.

2. Summary of Significant Accounting Policies

Basis of Quarterly Presentation

The accompanying unaudited consolidated financial statements and related notes of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and note disclosures normally included in the consolidated financial statements prepared under U.S. GAAP have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, which was filed with the U.S. Securities and Exchange Commission (the "SEC") on March 30, 2017.

Principles of Consolidation

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

Variable Interest Entities

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

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

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

As of September 30, 2017, the Company has identified certain consolidated and unconsolidated VIEs. Assets of each of the VIEs, other than the Operating Partnership, may only be used to settle obligations of the respective VIE. Creditors of each of the VIEs have no recourse to the general credit of the Company. The Company identified several VIEs which were originally consolidated under the voting interest model prior to changes in the consolidation rules under U.S. GAAP.

Consolidated VIEs

The most significant consolidated VIEs are the Operating Partnership, an Investing VIE (as discussed below) and certain properties that have non-controlling interests. These entities are VIEs because the non-controlling interests do not have substantive kick-out or participating rights. The Operating Partnership consolidates certain properties that have non-controlling interests. Included in operating real estate, net on the Company's consolidated balance sheet as of September 30, 2017 is $628.3 million related to such consolidated VIEs. Included in mortgage and other notes payable, net on the Company's consolidated balance sheet as of September 30, 2017 is $413.2 million, collateralized by the real estate assets of the related consolidated VIEs.

Investing VIEs

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

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

As of September 30, 2017, 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 represent 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. As a result, although the Company legally owns the Class B certificates only, U.S. GAAP requires the Company to present the assets, liabilities, income and expenses of the entire securitization trust on its consolidated financial statements. Regardless of the presentation, the Company's consolidated financial statements of operations ultimately reflect the net income attributable to its retained interest in the Class B certificates. Refer to Note 6, "Healthcare-Related Securities" for further detail.

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

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 ("CFE"), such as its Investing VIE, 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 September 30, 2017, the Company identified unconsolidated VIEs related to its real estate equity investments with a carrying value of $329.0 million. The Company's maximum exposure to loss as of September 30, 2017 would not exceed the carrying value of its investment in the VIEs and its investment in a mezzanine loan to a subsidiary of one of the VIEs. Based on management's analysis, the Company determined that it is not the primary beneficiary. Accordingly, these VIEs are not consolidated in the Company's financial statements as of September 30, 2017. The Company did not provide financial support to its unconsolidated VIEs during the nine months ended September 30, 2017. As of September 30, 2017, there were no explicit arrangements or implicit variable interests that could require the Company to provide financial support to its unconsolidated VIEs.

Voting Interest Entities

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

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

Investments in Unconsolidated Ventures

A non-controlling, unconsolidated ownership interest in an entity may be accounted for using the equity method or the cost method, and for either method, the Company may elect the fair value option. The Company may account for an investment in an unconsolidated entity 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.

<u>Estimates</u>

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

Comprehensive Income (Loss)

The Company reports consolidated comprehensive income (loss) in separate statements following the consolidated statements of operations. Comprehensive income (loss) is defined as the change in equity resulting from net income (loss) and other comprehensive income (loss) ("OCI"). The only component of OCI for the Company is foreign currency translation adjustments related to its investment in an unconsolidated venture.

Fair Value Option

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

The Company 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
Land improvements	15 years
Tenant improvements	Lesser of the useful life or remaining term of the lease
Furniture and fixtures	7 to 10 years

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

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 reserve, if deemed appropriate, which would approximate fair value. Debt investments where the Company does not have the intent to hold the loan for the foreseeable future or until its expected payoff are classified as held for sale and recorded at the lower of cost or estimated fair value.

Healthcare-Related Securities

The Company classifies its securities investments as available for sale on the acquisition date, which are carried at fair value. Unrealized gains (losses) are recorded as a component of accumulated OCI in the consolidated statements of equity. However, the Company has elected 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 September 30, 2017, the Company held Class B certificates of a securitization trust, which represents the Company's retained interest in the securitization trust, which the Company consolidates under U.S. GAAP. Refer to Note 6, "Healthcare-Related Securities" for further discussion.

Deferred Costs and Intangible Assets

Deferred Costs

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

Identified Intangibles

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

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

Identified intangible assets are recorded in deferred costs and intangible assets, net on the consolidated balance sheets.

The following table presents a summary of deferred costs and intangible assets as of September 30, 2017 and December 31, 2016 (dollars in thousands):

	September 30, 2017 (Unaudited)	December 31, 2016
Deferred costs and intangible assets:		
In-place lease value, net	$ 64,208	$ 93,554
Goodwill	22,112	22,112
Other intangible assets	380	380
Subtotal intangible assets	86,700	116,046
Deferred lease costs, net	305	358
Total	$ 87,005	$ 116,404

Acquisition Fees and Expenses

The total of all acquisition fees and expenses for an investment, including acquisition fees to the Advisor, cannot exceed, in the aggregate, 6.0% of the contract purchase price of such investment unless such excess is approved by a majority of the Company's directors, including a majority of its independent directors. For the nine months ended September 30, 2017, 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 real estate debt investments, net on the consolidated balance sheets and is amortized to interest income over the life of the investment using the effective interest method. The Company records as an expense certain acquisition costs and fees associated with transactions deemed to be business combinations in which it consolidates the asset and capitalizes these costs for transactions deemed to be acquisitions of an asset, including an equity investment.

Other Assets

The following table presents a summary of other assets as of September 30, 2017 and December 31, 2016 (dollars in thousands):

	September 30, 2017 (Unaudited)	December 31, 2016
Other assets:		
Healthcare facility regulatory reserve deposit	$ 6,000	$ 6,000
Remainder interest in condominium units[(1)]	3,704	4,554
Prepaid expenses	3,605	874
Lease inducements, net	617	799
Utility deposits	504	386
Pending deal deposits	250	2,324
Construction deposit	—	1,239
Other	842	698
Total	$ 15,522	$ 16,874

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

Revenue Recognition

Operating Real Estate

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

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

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

Real Estate Debt Investments

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

Healthcare-Related Securities

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

<u>Credit Losses and Impairment on Investments</u>

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 September 30, 2017, 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. In June 2017, the Company completed the process of transitioning the operator for two of its properties. The Company previously recorded a full allowance on outstanding rent on the two properties and as of January 1, 2017, revenue was recognized on a cash basis until the end of the lease term on May 31, 2017.

Real Estate Debt Investments

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

Income recognition is suspended for an investment at the earlier of the date at which payments become 90-days past due or when, in the opinion of the Company, a full recovery of income and principal becomes doubtful. When the ultimate collectability of the principal of an impaired investment is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the principal of an impaired investment is not in doubt, contractual interest is recorded as interest income when received, under the cash basis method until an accrual is resumed when the investment becomes contractually current and performance is demonstrated to be resumed. Interest accrued and not collected will be reversed against interest income. An investment is written off when it is no longer realizable and/or legally discharged. As of September 30, 2017, the Company did not have any impaired real estate debt investments.

Investments in Unconsolidated Ventures

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

As of September 30, 2017, the unconsolidated ventures in which the Company invests have recorded impairments and reserves, including a loan loss reserve for a direct financing lease receivable relating to the Espresso unconsolidated investment. The Company's proportionate ownership share of the loan loss reserve within the Espresso portfolio totaled $15.8 million and was recognized through equity in earnings (losses). During the third quarter of 2017, the Espresso sub-portfolio associated with the direct financing lease commenced an operator transition and determined that certain future cash flows of the direct financing lease are not believed to be collectible. The cash flows deemed not to be collectible primarily impact distributions on mandatorily redeemable units issued at the time of the original acquisition that allowed the seller to participate in certain future cash flows from the direct financing lease following the closing of the original acquisition. Pursuant to ASC 480, *Distinguishing Liabilities from Equity*, the redemption value of the corresponding unconsolidated venture's liability for the units issued to the seller has not been assessed in connection with the commencement of the operator transition, but will be assessed upon modification or termination of the lease, which is expected to occur at the completion of the operator transition. The Company has concluded that no additional impairment of its investments in unconsolidated ventures is required as of September 30, 2017.

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.

Foreign Currency

Assets and liabilities denominated in a foreign currency for which the functional currency is a foreign currency are translated using the currency exchange rate in effect at the end of the period presented and the results of operations for such entities are translated into U.S. dollars using the average currency exchange rate in effect during the period. The resulting foreign currency translation adjustment is recorded as a component of accumulated OCI in the consolidated statements of equity.

Assets and liabilities denominated in a foreign currency for which the functional currency is the U.S. dollar are remeasured using the currency exchange rate in effect at the end of the period presented and the results of operations for such entities are remeasured into U.S. dollars using the average currency exchange rate in effect during the period. The resulting foreign currency remeasurement adjustment is recorded in unrealized gain (loss) on investments and other in the consolidated statements of operations.

As of September 30, 2017 and December 31, 2016, the Company had exposure to foreign currency in an investment in an unconsolidated venture.

Equity-Based Compensation

The Company accounts for equity-based compensation awards using the fair value method, which requires an estimate of fair value of the award at the time of grant. All fixed equity-based awards to directors, which have no vesting conditions other than time of service, are amortized to compensation expense over the awards' vesting period on a straight-line basis. Equity-based compensation is classified within general and administrative expense in the consolidated statements of operations.

Income Taxes

The Company elected to be taxed as a REIT and to comply with the related provisions of the Internal Revenue Code beginning in its taxable year ended December 31, 2013. Accordingly, the Company will generally not be subject to U.S. federal income tax to the extent of its distributions to stockholders as long as certain asset, income and share ownership tests are met. To maintain its qualification as a REIT, the Company must annually distribute at least 90.0% of its REIT taxable income to its stockholders and meet certain other requirements. The Company believes that all of the criteria to maintain the Company's REIT qualification have been met for the applicable periods, but there can be no assurance that these criteria will continue to be met in subsequent periods. If the Company were to fail to meet these requirements, it would be subject to U.S. federal income tax and potential interest and penalties, which could have a material adverse impact on its results of operations and amounts available for distributions to its stockholders. The Company's accounting policy with respect to interest and penalties is to classify these amounts as a component of income tax expense, where applicable.

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

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

Certain subsidiaries of the Company are subject to taxation by federal, state and foreign authorities for the periods presented. Income taxes are accounted for by the asset/liability approach in accordance with U.S. GAAP. Deferred taxes, if any, represent the expected future tax consequences when the reported amounts of assets and liabilities are recovered or paid. Such amounts arise from differences between the financial reporting and tax bases of assets and liabilities and are adjusted for changes in tax laws and tax rates in the period which such changes are enacted. A provision for income tax represents the total of income taxes paid or payable for the current period, plus the change in deferred taxes. Current and deferred taxes are provided on the portion of earnings (losses) recognized by the Company with respect to its interest in the TRS. Deferred income tax assets and liabilities are calculated based on temporary differences between the Company's U.S. GAAP consolidated financial statements and the federal and state income tax basis of assets and liabilities as of the consolidated balance sheet date. The Company evaluates the realizability of its deferred tax assets (e.g., net operating loss and capital loss carryforwards) and recognizes a valuation allowance if, based on the available evidence, it is more likely than not that some portion or all of its deferred tax assets will not be realized. When evaluating the realizability of its deferred tax assets, the Company considers estimates of expected future taxable income, existing and projected book/tax differences, tax planning strategies available and the general and industry specific economic outlook. This realizability analysis is inherently subjective, as it requires the Company to forecast its business and general economic environment in future periods. Changes in estimate of deferred tax asset realizability, if any, are included in provision for income tax benefit (expense) in the consolidated statements of operations.

The Company recorded an income tax expense of approximately $15,000 and $56,000 for the three and nine months ended September 30, 2017, respectively. The Company recorded an income tax benefit of less than $0.1 million and an income tax expense of $7.1 million for the three and nine months ended September 30, 2016, respectively.

Recent Accounting Pronouncements

Revenue Recognition- In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, 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.

The Company has commenced the process of adopting the new revenue standard, including forming a project team and compiling an inventory of the sources of revenue the Company expects will be impacted by the adoption of this standard. The new revenue standard specifically excludes revenue streams for which specific guidance is stipulated in other sections of the codification, therefore it will not impact rental income and interest income generated on financial instruments such as real estate debt investment and securities. The Company generates non-lease revenues, such certain resident fees in its RIDEA structures (a portion of which are not generated through leasing arrangements) and lease-related executory cost payments (payments for maintenance activities, including common area maintenance, such as cleaning services) which are considered non-lease components and subject to the new standard on revenue recognition. The Company expects to apply the revenue recognition guidance related to its common area maintenance components within leases on January 1, 2019, upon its adoption of the lease accounting update. The Company expects that the recognition of income for its non-lease revenues in its RIDEA structures will be consistent with the current accounting model because currently the revenues associated with these services are generally recognized on a monthly basis, the period in which the related services are performed. The Company expects that the timing of other revenue recognition associated with non-lease service components that are charged outside of the resident fees may be affected by the new standards. The Company is in the process of evaluating the significance of the impact on the changes on its disclosures, controls and processes, and the recognition pattern of its revenue and is still completing its assessment of the overall impact of adopting this update.

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

Leases- In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The update 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.

Equity Method of Accounting- In March 2016, the FASB issued ASU No. 2016-07, *Investments- Equity Method and Joint Ventures (Topic 323), Simplifying the Transition to Equity Method of Accounting*, 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 becomes 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 adopted the new guidance prospectively on January 1, 2017 and the adoption of this standard did not have a material impact on its consolidated financial statements and related disclosures.

Equity-Based Compensation- In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Share-Based Payment Accounting*, 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 adopted the new guidance prospectively on January 1, 2017 and the adoption of this standard did not have a material impact on its consolidated financial statements and related disclosures.

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

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

Restricted Cash- In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows: Restricted Cash,* which requires 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.

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

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

Derecognition and Partial Sales of Nonfinancial Assets- In February 2017, the FASB issued ASU No. 2017-05, *Clarifying the Scope of Asset Derecognition and Accounting for Partial Sales of Nonfinancial Assets,* which clarifies the scope and application of recently established guidance on recognition of gains and losses from derecognition of non-financial assets, and defines in-substance non-financial assets. In addition, the guidance clarifies the accounting for partial sales of non-financial assets to be more consistent with the accounting for sale of a business. Specifically, in a partial sale to a non-customer, when a non-controlling interest is received or retained, the latter is considered a non-cash consideration and measured at fair value, which would result in full gain or loss recognized upon sale. This guidance has the same effective date as the new revenue guidance, which is January 1, 2018, with early adoption permitted beginning January 1, 2017. Both the revenue guidance and this update must be adopted concurrently. While the transition method is similar to the new revenue guidance, either full retrospective or modified retrospective, the transition approach need not be aligned between both updates. The Company plans to adopt the standard on its required effective date of January 1, 2018 using the modified retrospective approach. The Company does not believe that this guidance will have a material impact on its consolidated financial statements and related disclosures.

3. Operating Real Estate

The following table presents operating real estate, net as of September 30, 2017 and December 31, 2016 (dollars in thousands):

	September 30, 2017 (Unaudited)	December 31, 2016
Land	$ 289,561	$ 221,353
Land improvements	10,121	9,462
Buildings and improvements	1,587,771	1,329,118
Tenant improvements	8,332	5,172
Construction in progress	5,090	3,509
Furniture and fixtures	68,605	63,539
Subtotal	1,969,480	1,632,153
Less: Accumulated depreciation	(99,385)	(60,173)
Operating real estate, net	$ 1,870,095	$ 1,571,980

Operating Real Estate Acquisitions

Bonaventure

In February 2017, the Company completed the acquisition of the Bonaventure portfolio, which is comprised of five ILF/ALFs 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 $28.5 million of equity, inclusive of escrows and fees and obtained five ten-year fixed rate mortgage notes payable, which are cross-collateralized and cross-defaulted with a total principal balance of $72.5 million at a fixed interest rate of 4.66%.

Oak Cottage of Santa Barbara ("Oak Cottage")

In February 2017, the Company completed the acquisition of a 40 unit MCF located in Santa Barbara, California, for a purchase price of $19.4 million, excluding escrows and subject to customary pro-rations and adjustments. The Company funded the acquisition with approximately $16.2 million of equity and $3.5 million of seller financing at a fixed interest rate of 6.0%.

Rochester

In August 2017, through a joint venture with an affiliate of Watermark Retirement Communities ("Watermark"), the Company completed its acquisition of the Rochester portfolio for a purchase price of $204.0 million, excluding escrows and subject to customary prorations and adjustments. The portfolio is comprised of nine ILF/ALFs totaling 1,307 units located in New York, as well as two land parcels. The Company funded the acquisition with approximately $88.0 million of equity, inclusive of escrows and fees and with seven ten-year floating rate mortgage notes payable, which are cross-collateralized and cross defaulted with total principal balance of $101.2 million through Fannie Mae's DUS Loan Program, and the assumption of a mortgage through a national lender totaling $21.7 million. The joint venture is owned 97.0% by a subsidiary of the Company and 3.0% by Watermark. In addition, as part of the Rochester portfolio, the Company committed to subsequently acquire a 45 unit ILF for $12.4 million, upon the completion of its construction, which was completed in the fourth quarter of 2017 and 100.0% seller financed a fixed interest rate of 6.0%. No additional equity was contributed, other than closing costs.

Winterfell

In March 2016, the Company acquired NorthStar Realty's 60.0% interest in a joint venture (the "Winterfell JV") which owned 32 private pay ILFs (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 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. Accordingly, as of March 1, 2016, the Company held 100.0% of the equity and consolidated the Winterfell 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. The Company finalized the purchase price allocation for the Winterfell portfolio as of March 31, 2017.

The following table summarizes operating real estate acquisitions for the nine months ended September 30, 2017 (dollars in thousands):

Acquisition Date	Type	Portfolio	Amount[(1)]	Properties	Units	Location	Financing	Company's Equity	Ownership Interest	Transaction Costs[(2)]
February 2017	Operating Facility	Bonaventure	$ 99,438	5	453	Various locations	$ 72,466	$ 28,459	100.0%	$ 1,042
February 2017	Operating Facility	Oak Cottage	19,427	1	40	Santa Barbara, CA	3,500	16,191	100.0%	233
August 2017	Operating Facility	Rochester	205,318	9	1,307	Rochester, NY	122,861	88,039	97.0%	3,453
Total			$ 324,183	15	1,800		$ 198,827	$ 132,689		$ 4,728

(1) Represents the purchase price, including deferred costs and other assets, and may be adjusted upon completion of the final purchase price allocation, which will not be later than one year from the date of acquisition. Includes cost associated with purchased land parcels that are not included in the properties count.
(2) Includes $0.2 million of transaction costs expensed during the year ended December 31, 2016 related to the Bonaventure portfolio.

The purchase price of the assets and liabilities acquired from the acquisition of the Bonaventure, Oak Cottage and Rochester portfolios are preliminarily allocated 20.0% to land and 80.0% to buildings. From acquisition date through September 30, 2017, the Company recorded aggregate revenue and net income attributable to the Bonaventure portfolio of $9.2 million and $0.3 million, respectively, in its consolidated statements of operations. The net income includes depreciation expense and transaction costs of $1.3 million and $1.0 million, respectively. From acquisition date through September 30, 2017, the Company recorded aggregate revenue and net loss attributable to the Oak Cottage portfolio of $1.9 million and $0.2 million, respectively, in its consolidated statements of operations. The net loss includes transaction costs and depreciation expense of $0.2 million and $0.2 million, respectively. From acquisition date through September 30, 2017, the Company recorded aggregate revenue and net loss attributable to the Rochester portfolio of $4.2 million and $4.2 million, respectively, in its consolidated statements of operations. The net loss includes depreciation expense and transaction costs of $1.8 million and $3.5 million, respectively.

Land Acquisitions

Pinebrook

In July 2017, the Company completed the acquisition of a land parcel adjacent to one of the Company's operating facilities in Milford, Ohio, for a purchase price of $0.7 million, excluding escrows and subject to customary pro-rations and adjustments. The acquisition was funded 100.0% with equity. The Company has commenced construction on a new memory care facility on the land parcel, with a projected completion date in the fourth quarter of 2018.

4. Investments in Unconsolidated Ventures

All investments in unconsolidated ventures are accounted for under the equity method. The following tables present the Company's investments in unconsolidated ventures as of September 30, 2017 and December 31, 2016 and activity for the three and nine months ended September 30, 2017 and 2016 (dollars in thousands):

						Properties as of September 30, 2017[(1)]				
Portfolio	**Partner[(2)]**	**Acquisition Date**	**Ownership**	**Purchase Price[(3)]**	**Equity Investment[(4)]**	**Senior Housing Facilities**	**MOB**	**SNF**	**Hospitals**	**Total**
Eclipse	Colony NorthStar/ Formation Capital, LLC	May-2014	5.6%	$1,048,000	$ 23,400	44	—	32	—	76
Envoy	Formation Capital, LLC/ Safanad Management Limited	Sep-2014	11.4%	145,000	5,000	—	—	14	—	14
Griffin - American	Colony NorthStar	Dec-2014	14.3%	3,238,547	202,297	90	108	41	14	253
Espresso	Formation Capital, LLC/ Safanad Management Limited	Jul-2015	36.7%	870,000	55,146	6	—	152	—	158
Trilogy	Griffin-American Healthcare REIT III, Inc./ Management Team of Trilogy Investors, LLC	Dec-2015	29.0%	1,162,613	228,820	8	—	66	—	74
Subtotal				6,464,160	514,663	148	108	305	14	575
Operator Platform[(5)]		Jul-2017	20.0%	2	2	—	—	—	—	—
Total				$6,464,162	$ 514,665	148	108	305	14	575

(1) Excludes 10 properties sold and three properties designated held for sale during the nine months ended September 30, 2017.
(2) In January 2017, NorthStar Realty completed its previously announced merger with Colony and NSAM, with Colony NorthStar surviving the mergers.
(3) Purchase price represents the actual or implied gross purchase price for the joint venture on the acquisition date. Purchase price is not adjusted for subsequent acquisitions or dispositions of interest.
(4) Represents initial and subsequent contributions to the underlying joint venture through September 30, 2017. In January 2017 and September 2017, the Company funded additional capital contributions of $5.3 million and $3.0 million, respectively, into the Trilogy joint venture. The additional fundings related to certain business initiatives, including the acquisition of additional senior housing and skilled nursing facilities and repayment of certain outstanding obligations.
(5) Represents investment in Solstice Senior Living, LLC ("Solstice"). In July 2017, the Company commenced the transition of operations of the Winterfell portfolio from the current manager, Holiday AL Management Sub, LLC, an affiliate of Holiday Retirement, to a new manager, Solstice. Solstice is a newly formed joint venture between affiliates of Integral Senior Living, LLC, a leading management company of ILF, ALF and MCF founded in 2000, which owns 80.0%, and the Company, which owns 20.0%. The Company completed the transition in November 2017.

	Three Months Ended September 30, 2017			Three Months Ended September 30, 2016			Carrying Value	
Portfolio	**Equity in Earnings (Losses)**	**Depreciation, Amortization Expense & Transaction Costs**	**Cash Distributions**	**Equity in Earnings (Losses)**	**Depreciation, Amortization Expense & Transaction Costs**	**Cash Distributions**	**September 30, 2017 (Unaudited)[(1)]**	**December 31, 2016[(2)]**
Eclipse	$ (776)	$ (442)	$ 581	$ 123	$ (450)	$ 496	$ 13,761	$ 15,932
Envoy	247	(2)	248	(2)	(1)	—	6,389	6,398
Griffin - American	(1,261)	(3,605)	1,216	(2,109)	(4,782)	3,792	134,356	144,629
Espresso	(16,609) [(3)]	(1,157)	—	283	(1,070)	1,789	6,787	29,353
Trilogy	(158)	(4,374)	—	(13,899)	(17,764)	—	167,656	164,222
Subtotal	(18,557)	(9,580)	2,045	(15,604)	(24,067)	6,077	328,949	360,534
Operator Platform[(4)]	—	—	—	—	—	—	2	—
Total	$ (18,557)	$ (9,580)	$ 2,045	$ (15,604)	$ (24,067)	$ 6,077	$ 328,951	$ 360,534

(1) Includes $1.3 million, $0.4 million, $13.4 million, $7.6 million and $9.8 million of capitalized acquisition costs for the Company's investments in the Eclipse, Envoy, Griffin-American, Espresso and Trilogy joint ventures, respectively.
(2) Includes $1.3 million, $0.4 million, $13.4 million, $7.6 million and $9.3 million of capitalized acquisition costs for the Company's investments in the Eclipse, Envoy, Griffin-American, Espresso and Trilogy joint ventures, respectively.
(3) Includes a loan loss reserve recorded by the joint venture, of which the Company's proportionate share totaled $15.8 million. Refer to *Credit Losses and Impairment on Investments* in Note 2, "Summary of Significant Accounting Policies" for additional discussion.

(4) Represents investment in Solstice. For the three and nine months ended September 30, 2017, the Company's investment in Solstice did not generate equity in earnings (losses).

	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016		
Portfolio	Equity in Earnings (Losses)	Depreciation, Amortization Expense & Transaction Costs	Cash Distributions	Equity in Earnings (Losses)	Depreciation, Amortization Expense & Transaction Costs	Cash Distributions
Eclipse	$ (1,186)	$ (1,337)	$ 985	$ 418	$ (1,346)	$ 1,478
Envoy	419	(2)	427	(311)	177	—
Griffin - American	(5,795)	(10,789)	6,913	(8,324)	(14,359)	9,373
Winterfell[1]	—	—	—	1,423	—	591
Espresso	(19,258) [2]	(3,545)	3,307	(1,102)	(2,823)	5,028
Trilogy	(5,414)	(15,064)	—	(39,177)	(49,684)	—
Total	$ (31,234)	$ (30,737)	$ 11,632	$ (47,073)	$ (68,035)	$ 16,470

(1) 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.
(2) Includes a loan loss reserve recorded by the joint venture, of which the Company's proportionate share totaled $15.8 million. Refer to *Credit Losses and Impairment on Investments* in Note 2, "Summary of Significant Accounting Policies" for additional discussion.

Divestitures by Joint Ventures

The Griffin-American joint venture sold 35 MOBs in December 2016 and one MOB in January 2017 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 was $1.2 million.

Summarized Financial Data

The Company evaluates whether disclosure of summarized financial statement information is required for any individually significant investment in unconsolidated ventures and determined one investment to be significant for the nine months ended September 30, 2017. The balance sheets as of September 30, 2017 and December 31, 2016 and statements of operations for the three and nine months ended September 30, 2017 and 2016 for the Espresso unconsolidated venture are as follows (dollars in thousands):

	September 30, 2017 (Unaudited)	December 31, 2016		Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Assets							
Total assets	$ 771,821	$ 858,107	Total revenues	$ 26,021	$ 23,783	$ 74,556	$ 70,611
Liabilities and equity			Net income (loss)	$ (45,283)	$ 773	$ (52,367)	$ 767
Total liabilities	$ 773,631	$ 804,013					
Equity	(1,810)	54,094					
Total liabilities and equity	$ 771,821	$ 858,107					

5. Real Estate Debt Investments

The following table presents one debt investment as of September 30, 2017 and December 31, 2016 (dollars in thousands):

Asset Type:	Principal Amount	September 30, 2017 (Unaudited) Carrying Value	December 31, 2016 Carrying Value	Fixed Rate	Unlevered Current Yield
Mezzanine loan[1]	$ 75,000	$ 74,626	$ 74,558	10.0%	10.3%

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

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 September 30, 2017, the Company's debt investment was not performing in accordance with the contractual terms of its governing documents as a result of non-monetary defaults. The Company's debt investment is a mezzanine loan on a portfolio that has several sub-portfolios, two of which have experienced tenant lease defaults and currently have operator transitions in process. The underlying tenant defaults resulted in defaults under the senior loans with respect to the applicable sub-portfolios, which in turn resulted in defaults under the mezzanine loan. The Company is actively monitoring the actions of the senior lenders of each sub-portfolio and assessing our rights and remedies. Subsequent to September 30, 2017, the Company is also actively monitoring other potential operator transitions that would impact the mezzanine loan and continues to assess the collectability of principal and interest. As of September 30, 2017, contractual debt service on the Company's mezzanine loan has been paid in accordance with contractual terms. As of September 30, 2017, the Company expects to receive full payment of contractual principal and interest and, accordingly, the debt investment was categorized as a performing loan.

For the nine months ended September 30, 2017, the debt investment contributed 100.0% the Company's interest income on debt investments as presented on the consolidated statement of operations.

6. Healthcare-Related Securities

In October 2016, the Company purchased the Class B certificates in a $575.1 million securitization trust (Freddie Mac 2016-KS06 Mortgage Trust), which is secured by a pool of 41 mortgage loans related to senior housing facilities. 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 produce 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 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 September 30, 2017 and December 31, 2016 (dollars in thousands):

	September 30, 2017 (Unaudited)	December 31, 2016
Assets		
Senior housing mortgage loans held in a securitization trust, at fair value	$ 552,087	$ 553,707
Receivables	2,133	2,141
Total assets	$ 554,220	$ 555,848
Liabilities		
Senior housing mortgage obligations issued by a securitization trust, at fair value	$ 520,205	$ 522,933
Accounts payable and accrued expenses	1,926	1,934
Total liabilities	$ 522,131	$ 524,867

As of September 30, 2017, the senior housing mortgage loans and the related mortgage obligations held in the securitization trust had an unpaid principal balance of $571.5 million and $513.9 million, respectively.

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

The difference between the carrying values of the senior housing mortgage loans held in the securitization trust and the carrying value of the securitized mortgage obligations was $31.9 million and $30.8 million as of September 30, 2017 and December 31, 2016, respectively, and approximates the fair value of the Company's underlying investment in Class B certificates of the securitization trust. Refer to Note 12, "Fair Value" for a description of the valuation techniques used to measure fair value of assets and liabilities of the Investing VIE.

The following table presents the activity recorded for the three and nine months ended September 30, 2017 related to the consolidated securitization trust on the consolidated statement of operations. The Company generated net income of $1.0 million and $3.0 million from its investment in Class B certificates for the three and nine months ended September 30, 2017, respectively.

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

For the nine months ended September 30, 2017, the consolidated securitization trust contributed 100.0% the Company's interest income on mortgage loans held in a securitized trust as presented on the consolidated statement of operations.

7. Borrowings

The following table presents the Company's borrowings as of September 30, 2017 and December 31, 2016 (dollars in thousands):

				September 30, 2017 (Unaudited)		December 31, 2016	
	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%	$ 23,577	$ 23,233	$ 24,000	$ 23,528
Watermark Aqua Portfolio							
Denver, CO	Non-recourse	Feb-21	LIBOR + 2.92%	21,283	21,130	21,500	21,309
Frisco, TX	Non-recourse	Mar-21	LIBOR + 3.04%	19,837	19,701	20,000	19,830
Milford, OH	Non-recourse	Sep-26	LIBOR + 2.68%	18,760	18,198	18,760	18,142
Rochester Portfolio							
Rochester, NY	Non-recourse	Feb-25	4.25%	21,589	21,455	—	—
Rochester, NY[4]	Non-recourse	Aug-27	LIBOR + 2.34%	101,224	100,036	—	—
Arbors Portfolio[5]							
Various locations	Non-recourse	Feb-25	3.99%	92,814	91,255	93,750	91,992
Watermark Fountains Portfolio[6]							
Various locations	Non-recourse	Jun-22	3.92%	410,000	406,253	410,000	405,564
Winterfell Portfolio[7]							
Various locations	Non-recourse	Jun-25	4.17%	648,211	623,943	648,211	620,617
Bonaventure Portfolio[8]							
Various locations	Non-recourse	Feb-27	4.66%	72,466	71,752	—	—
Subtotal mortgage notes payable, net				1,429,761	1,396,956	1,236,221	1,200,982
Other notes payable							
Oak Cottage							
Santa Barbara, CA	Non-recourse	Feb-22	6.00%	3,500	3,500	—	—
Total mortgage and other notes payable, net				$ 1,433,261	$ 1,400,456	$ 1,236,221	$ 1,200,982

(1) Floating rate borrowings are comprised of $161.1 million principal amount at one-month London Interbank Offered Rate ("LIBOR") and $23.6 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 and collateralized by four healthcare real estate properties. As of September 30, 2017, the Company has funded approximately $7.1 million into a lender controlled reserve.
(4) Comprised of seven individual mortgage notes payable secured, cross collateralized and cross-defaulted by seven healthcare real estate properties.
(5) Comprised of four individual mortgage notes payable secured by four healthcare real estate properties, cross-collateralized and cross-defaulted.
(6) Comprised of $410.0 million principal amount of fixed rate borrowings, secured by 15 healthcare real estate properties, cross-collateralized and cross-defaulted.
(7) Comprised of 32 individual mortgage notes payable secured by 32 healthcare real estate properties, cross-collateralized and cross-defaulted.
(8) Comprised of five individual mortgage notes payable secured by five healthcare real estate properties, cross-collateralized and cross-defaulted.

The following table presents scheduled principal payments on borrowings based on final maturity as of September 30, 2017 (dollars in thousands):

October 1 to December 31, 2017	$ 885
Years Ending December 31:	
2018	10,632
2019	44,850
2020	23,058
2021	62,210
Thereafter	1,291,626
Total	$ 1,433,261

As of September 30, 2017, the Company's Peregrine portfolio did not maintain certain minimum financial coverage ratios required under the contractual terms of its mortgage note, which resulted in a non-monetary default. The Company is currently in discussions with the lender to restructure the loan to cure or otherwise waive the default.

8. Related Party Arrangements

Advisor

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

In June 2017, the advisory agreement was renewed for an additional one-year term commencing on June 30, 2017, with terms identical to those in effect through June 30, 2017.

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

Reimbursements to Advisor

Operating Costs

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

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 15.0% 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 NorthStar Securities, LLC (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 nine months ended September 30, 2017 and the amount due to related party as of September 30, 2017 and December 31, 2016 (dollars in thousands):

Type of Fee or Reimbursement	Financial Statement Location	Due to Related Party as of December 31, 2016	Nine Months Ended September 30, 2017		Due to Related Party as of September 30, 2017 (Unaudited)
			Incurred	Paid	
Fees to Advisor Entities					
Asset management	Asset management and other fees-related party	$ 12	$ 25,386	$ (22,414)	$ 2,984
Acquisition(1)	Investments in unconsolidated ventures/Asset management and other fees-related party	66	7,872	(7,841)	97
Reimbursements to Advisor Entities					
Operating costs(2)	General and administrative expenses	141	6,592	(4,408)	2,325
Total		$ 219	$ 39,850	$ (34,663)	$ 5,406

(1) Acquisition/disposition fees incurred to the Advisor related to debt investments are generally offset by origination/exit fees paid to the Company by borrowers if such fees are required from the borrower. Acquisition fees related to equity investments are included in asset management and other fees-related party in the consolidated statements of operations. Acquisition fees related to investments in unconsolidated joint ventures are included in investments in unconsolidated ventures on the consolidated balance sheets. From inception through September 30, 2017, the Advisor waived $0.3 million of acquisition fees related to healthcare-related securities. The Company did not incur any disposition fees during the nine months ended September 30, 2017, nor were any such fees outstanding as of December 31, 2016.

(2) As of September 30, 2017, the Advisor does not have any unreimbursed operating costs which remain eligible to be allocated to the Company.

Investments in Joint Ventures

The below table indicates the Company's investments for which Colony NorthStar is also an equity partner in the joint venture. Each investment was approved by the Company's board of directors, including all of its independent directors. Refer to Note 4, "Investments in Unconsolidated Ventures" for further discussion of these investments (dollars in thousands):

Portfolio	Partner(s)	Acquisition Date	Ownership	Purchase Price(1)	Carrying Value as of September 30, 2017
Eclipse	Colony NorthStar/ Formation Capital, LLC	May-2014	5.6%	$ 59,097	$ 13,761
Griffin-American	Colony NorthStar	Dec-2014	14.3%	463,436	134,356

(1) Purchase price represents the Company's proportionate share of 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.

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

In December 2015, the Company, through a joint venture with Griffin-American Healthcare REIT III, Inc. ("GAHR3"), a REIT sponsored and advised by AHI, acquired a 29.0% interest in the Trilogy portfolio, a $1.2 billion healthcare portfolio and contributed $201.7 million for its interest. The purchase was approved by the Company's board of directors, including all of its independent directors. In June 2016, in accordance with the joint venture agreement, the Company funded an additional capital contribution of $18.8 million. Additionally, in January 2017 and September 2017, the Company funded capital contributions of $5.3 million and $3.0 million, respectively, for a total contribution of $228.8 million. The additional fundings related to certain business initiatives, including the acquisition of additional senior housing and skilled nursing facilities and repayment of certain outstanding obligations.

Origination of Mezzanine Loan

In July 2015, the Company originated a $75.0 million mezzanine loan to a subsidiary of Espresso, which bears interest at a fixed rate of 10.0% per year and matures in January 2021. Refer to Note 5, "Real Estate Debt Investments" for further discussion.

9. Equity-Based Compensation

The Company adopted a long-term incentive plan, as amended (the "Plan"), which it may use to attract and retain qualified officers, directors, employees and consultants, as well as an independent directors compensation plan, which is a component of the Plan. Pursuant to the Plan, as of September 30, 2017, the Company's independent directors were granted a total of 75,449 shares of restricted common stock for an aggregate $0.7 million, based on the share price on the date of each grant, including 19,779 shares granted in June 2017. The restricted stock granted prior to 2015 generally vests quarterly over four years and the restricted stock granted in and subsequent to 2015 generally vests quarterly over two years. However, the stock will become fully vested on the earlier occurrence of: (i) the termination of the independent director's service as a director due to his or her death or disability; or (ii) a change in control of the Company.

The Company recognized equity-based compensation expense of approximately $47,000 and $49,000 for the three months ended September 30, 2017 and 2016, and approximately $146,000 and $117,000 for the nine months ended September 30, 2017 and 2016, 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 24,396 and 18,995 as of September 30, 2017 and December 31, 2016, 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. From inception through September 30, 2017, 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. 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, the Company's board of directors, including all of its independent directors, upon the recommendation of its audit committee, approved and established an estimated value per share of our common stock of $9.10 as of June 30, 2016, based upon the estimated value of the Company's assets less the estimated value of its liabilities as of that date. The Company expects that the next estimated value per share will be based upon its assets and liabilities as of June 30, 2017. Effective December 7, 2016, the purchase price pursuant to the DRP is $9.10 per share.

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

For the nine months ended September 30, 2017, the Company issued 5.6 million shares of common stock totaling $50.6 million of gross offering proceeds pursuant to 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. From inception through September 30, 2017, the Company issued 19.3 million shares of common stock, generating gross offering proceeds of $177.4 million pursuant to the DRP.

Distributions

Distributions to stockholders are declared quarterly by the board of directors of the Company and have been paid monthly based on a daily amount of $0.00184932 per share, which is equivalent to an annualized distribution amount of $0.675 per share of the Company's common stock. Distributions are generally paid to stockholders on the first business day of the month following the month for which the distribution has accrued.

During the third quarter of 2017, the Company's board of directors approved a daily cash distribution of $0.00184932 per share of common stock for each of the three months ended December 31, 2017.

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

	Distributions[(1)]		
Period	**Cash**	**DRP**	**Total**
2017			
January	$ 4,887	$ 5,752	$ 10,639
February	4,401	5,197	9,598
March	4,940	5,720	10,660
April	4,805	5,535	10,340
May	4,944	5,721	10,665
June	4,808	5,548	10,356
July	5,037	5,686	10,723
August	4,995	5,683	10,678
September	4,867	5,504	10,371
Total	$ 43,684	$ 50,346	$ 94,030

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

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 nine months ended September 30, 2017, the Company repurchased 3.7 million shares of common stock for $34.1 million at an average price of $9.22 per share. 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 pursuant to the Share Repurchase Program. The Company funds repurchase requests received during a quarter with cash on hand, borrowings or other available capital. Repurchase requests are not expected to exceed proceeds received from its DRP. As of September 30, 2017, 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 three and nine months ended September 30, 2017 and 2016 was de minimis.

Other

Other non-controlling interests represent third-party equity interests in ventures that are consolidated with the Company's financial statements. Net loss attributable to the other non-controlling interests was approximately $97,000 and $27,000 for the three and nine months ended September 30, 2017. Net income (loss) attributable to the other non-controlling interests was net income of approximately $64,000 and net loss of approximately $55,000 for the three and nine months ended September 30, 2016, respectively.

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 securitization trust being equal to the fair value of their liabilities. The Company has determined that the fair value of the liabilities of the securitization 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 securitization 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 securitization trust's financial liabilities, the dealers will consider contractual cash payments and yields expected by market participants. Dealers also incorporate common market pricing methods, including a spread measurement to the treasury curve or interest rate swap curve as well as underlying characteristics of the particular security including coupon, periodic and life caps, collateral type, rate reset period and seasoning or age of the security. The Company's senior housing collateralized mortgage obligations are classified as Level 2 fair values. In accordance with ASC 810, *Consolidation*, the assets of the securitization 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 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 September 30, 2017 and December 31, 2016 by level within the fair value hierarchy (dollars in thousands):

	September 30, 2017 (Unaudited)				December 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial Assets								
Senior housing mortgage loans held in a securitization trust, at fair value	$ —	$ —	$ 552,087	$ 552,087	$ —	$ —	$ 553,707	$ 553,707
Financial Liabilities								
Senior housing mortgage obligations issued by a securitization trust, at fair value	$ —	$ 520,205	$ —	$ 520,205	$ —	$ —	$ 522,933	$ 522,933

As of September 30, 2017, the Company had no financial assets and liabilities that were accounted for at fair value on a non-recurring basis.

The following table presents the changes in fair value of financial assets which are measured at fair value on a recurring basis using Level 3 inputs to determine fair value for the nine months ended September 30, 2017 and year ended December 31, 2016 (dollars in thousands):

	Nine Months Ended September 30, 2017 (Unaudited)	Year Ended December 31, 2016
Beginning balance	$ 553,707	$ —
Purchases/contributions	—	580,418
Paydowns/distributions	(3,020)	(654)
Unrealized gain (loss)	1,400	(26,057)
Ending balance	$ 552,087	$ 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 nine months ended September 30, 2017 and year ended December 31, 2016 (dollars in thousands):

	Nine Months Ended September 30, 2017 (Unaudited)	Year Ended December 31, 2016
Beginning balance	$ 522,933	$ —
Purchases/contributions	—	549,942
Transfers to Level 2[(1)]	(522,933)	—
Paydowns/distributions	—	(654)
Unrealized (gain) loss	—	(26,355)
Ending balance	$ —	$ 522,933

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

For the nine months ended September 30, 2017, the key unobservable inputs used in the fair value analysis included a weighted average yield of 13.1% and a weighted average life of 8.8 years. For the year ended December 31, 2016, the key unobservable inputs used in the fair value analysis included a weighted average yield of 13.1% and a weighted average life of 9.6 years. Significant increases (decreases) in any one of the inputs described above in isolation may result in a significantly different fair value for the financial assets using such Level 3 inputs.

For the nine months ended September 30, 2017, the Company recorded an unrealized gain of $1.4 million for financial assets for which the fair value option was elected. For the nine months ended September 30, 2017, the Company recorded an unrealized loss of $0.3 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, net, in the consolidated statements of operations.

Fair Value Option

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

Fair Value of Financial Instruments

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

The following table presents the principal amount, carrying value and fair value of certain financial assets and liabilities as of September 30, 2017 and December 31, 2016 (dollars in thousands):

	September 30, 2017 (Unaudited)			December 31, 2016		
	Principal Amount	Carrying Value	Fair Value	Principal Amount	Carrying Value	Fair Value
Financial assets:[(1)]						
Real estate debt investments, net	$ 75,000	$ 74,626	$ 75,000	$ 75,000	$ 74,558	$ 72,278
Financial liabilities:[(1)]						
Mortgage and other notes payable, net	$ 1,433,261	$ 1,400,456	$ 1,406,044	$ 1,236,221	$ 1,200,982	$ 1,147,406

(1) The fair value of other financial instruments not included in this table is estimated to approximate their carrying value.

Disclosure about fair value of financial instruments is based on pertinent information available to management as of the reporting date. Although management is not aware of any factors that would significantly affect fair value, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since that date and current estimates of fair value may differ significantly from the amounts presented herein.

Real Estate Debt Investments, Net

For commercial real estate ("CRE") debt investments, fair values were determined by comparing the current yield to the estimated yield for newly originated loans with similar credit risk or the market yield at which a third party might expect to purchase such investment; or based on discounted cash flow projections of principal and interest expected to be collected, which includes consideration of the financial standing of the borrower or sponsor as well as operating results of the underlying collateral. As of the reporting date, the Company believes that principal amount approximates fair value. These fair value measurements of CRE debt are generally based on unobservable inputs, and as such, are classified as Level 3 of the fair value hierarchy.

Mortgage and Other Notes Payable, Net

For mortgage and other notes payable, the Company primarily uses rates currently available with similar terms and remaining maturities to estimate fair value. These measurements are determined using comparable U.S. Treasury rates as of the end of the reporting period. These fair value measurements are based on observable inputs, and as such, are classified as Level 2 of the fair value hierarchy.

13. Segment Reporting

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

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

- *Real Estate Debt* - Focused on originating, acquiring and asset managing healthcare-related debt investments and may include first mortgage loans, subordinate interests and mezzanine loans and participations in such loans, as well as preferred equity interests.

- *Healthcare-Related Securities* - Focused on investing in and asset managing healthcare-related securities primarily consisting of CMBS, commercial mortgage obligations and other securities backed primarily by loans secured by healthcare properties.

- *Corporate* - The corporate segment includes corporate level asset management and other fees - related party and general and administrative expenses.

The Company primarily generates rental and resident fee income from real estate equity investments and net interest income on real estate debt and securities investments. As of September 30, 2017, 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 nine months ended September 30, 2017, gross revenues from two of the Company's operators, Watermark Retirement Communities and Holiday Retirement, were 45.8% and 39.0%, respectively, of total revenues. The following tables present segment reporting for the three and nine months ended September 30, 2017 and 2016 (dollars in thousands):

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

(1) Includes unallocated asset management fee-related party and general and administrative expenses.
(2) Investing VIEs are not considered to be a segment that the Company conducts its business through, however U.S. GAAP requires the Company, as the primary beneficiary, to present the assets and liabilities of the securitization trust on its consolidated balance sheets and recognize the related interest income and interest expense, as net interest income on the consolidated statements of operations. Though U.S. GAAP requires this presentation, the Company views its investment in the securitization trust as a net investment in healthcare-related securities.
(3) Represents income earned from the healthcare-related securities purchased at a discount, recognized using the effective interest method had the transaction been recorded as an available for sale security, at amortized cost. During the three months ended September 30, 2017, $0.4 million was attributable to discount accretion income and was eliminated in consolidation in the corporate segment. The corresponding interest expense is recorded in net interest income in the Investing VIE column.

Three Months Ended September 30, 2016	Real Estate Equity	Real Estate Debt	Corporate[(1)]	Total
Rental and resident fee income	$ 64,579	$ —	$ —	$ 64,579
Interest income	—	5,072	—	5,072
Other revenue	557	—	37	594
Property operating expenses	(35,489)	—	—	(35,489)
Interest expense	(13,424)	—	—	(13,424)
Transaction costs	(31)	—	—	(31)
Asset management and other fees - related party	—	—	(8,579)	(8,579)
General and administrative expenses	(208)	(25)	(3,747)	(3,980)
Depreciation and amortization	(10,678)	—	—	(10,678)
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	5,306	5,047	(12,289)	(1,936)
Equity in earnings (losses) of unconsolidated ventures	(15,604)	—	—	(15,604)
Income tax benefit (expense)	36	—	—	36
Net income (loss)	$ (10,262)	$ 5,047	$ (12,289)	$ (17,504)

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

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

(1) Includes unallocated asset management fee-related party and general and administrative expenses.
(2) Investing VIEs are not considered to be a segment through which the Company conducts business, however U.S. GAAP requires the Company, as the primary beneficiary, to present the assets and liabilities of the securitization trust on its consolidated balance sheets and recognize the related interest income and interest expense, as net interest income on the consolidated statements of operations. Though U.S. GAAP requires this presentation, the Company views its investment in the securitization trust as a net investment in healthcare-related securities.
(3) Represents income earned from the healthcare-related securities purchased at a discount, recognized using the effective interest method had the transaction been recorded as an available for sale security, at amortized cost. During the nine months ended September 30, 2017, $1.1 million was attributable to discount accretion income and was eliminated in consolidation in the corporate segment. The corresponding interest expense is recorded in net interest income in the Investing VIE column.

Nine Months Ended September 30, 2016	Real Estate Equity	Real Estate Debt	Corporate(1)	Total
Rental and resident fee income	$ 170,886	$ —	$ —	$ 170,886
Net interest income on debt and securities	—	15,112	—	15,112
Other revenue	1,026	—	37	1,063
Property operating expenses	(93,868)	—	—	(93,868)
Interest expense	(34,951)	—	—	(34,951)
Other expenses related to securitization trust	—	—	—	—
Transaction costs	(1,563)	—	—	(1,563)
Asset management and other fees - related party	—	—	(36,659)	(36,659)
General and administrative expenses	(713)	(74)	(19,751)	(20,538)
Depreciation and amortization	(35,930)	—	—	(35,930)
Realized gain (loss) on investments and other	411	—	—	411
Gain (loss) on consolidation of unconsolidated venture	6,408	—	—	6,408
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	11,706	15,038	(56,373)	(29,629)
Equity in earnings (losses) of unconsolidated ventures	(47,073)	—	—	(47,073)
Income tax benefit (expense)	(7,088)	—	—	(7,088)
Net income (loss)	$ (42,455)	$ 15,038	$ (56,373)	$ (83,790)

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

The following table presents total assets by segment as of September 30, 2017 and December 31, 2016 (dollars in thousands):

Total Assets:	Real Estate Equity(1)	Real Estate Debt	Healthcare-Related Securities	Corporate(2)	Subtotal	Investing VIEs(3)	Total
September 30, 2017 (Unaudited)	$ 2,363,137	$ 75,251	$ 32,088	$ (23,993)	$ 2,446,483	$ 554,220	$ 3,000,703
December 31, 2016	2,118,877	75,204	30,981	177,299	2,402,361	555,848	2,958,209

(1) Includes investments in unconsolidated joint ventures totaling $329.0 million and $360.5 million as of September 30, 2017 and December 31, 2016, respectively.
(2) Represents elimination of healthcare-related securities in consolidation offset by corporate cash and cash equivalent balances.
(3) Investing VIEs are not considered to be a segment through which the Company conducts business, however U.S. GAAP requires the Company, as the primary beneficiary, to present the assets and liabilities of the securitization trust on its consolidated balance sheets and recognize the related interest income and interest expense, as net interest income on the consolidated statements of operations. Though U.S. GAAP requires this presentation, the Company's management and chief decision makers view the Company's investment in the securitization trust as a net investment in healthcare-related securities. As such, the Company has presented the statements of operations and balance sheets within this note in a manner consistent with the views of the Company's management and chief decision makers.

14. Subsequent Events

Distribution Reinvestment Plan

For the period from October 1, 2017 through November 13, 2017, the Company issued 1.2 million shares pursuant to the DRP, representing gross proceeds of $11.1 million.

Share Repurchases

From October 1, 2017 through November 13, 2017, the Company repurchased 2.0 million shares for a total of $18.7 million or a weighted average price of $9.20 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 cash on hand, borrowings or other available capital. Repurchase requests are not expected to exceed proceeds received from its DRP.

Rochester Acquisition

In November 2017, the Company completed the second phase of the Rochester portfolio acquisition, acquiring a 45 unit ILF for $12.4 million. The acquisition was 100.0% seller financed at a fixed interest rate of 6.0%. No additional equity was contributed, other than closing costs.

Colony NorthStar Line of Credit

In October 2017, the Company obtained a revolving line of credit from an affiliate of Colony NorthStar, the Sponsor, for up to $15.0 million at an interest rate of 3.5% plus LIBOR (the "Sponsor Line"). The Sponsor Line has an initial one year term, with an extension option of six months. The Sponsor Line was approved by the Company's board of directors, including all of its independent directors. In November 2017, the borrowing capacity under the Sponsor Line was increased to $35.0 million. As of November 13, 2017, the Company had drawn $15.0 million under the Sponsor Line.

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

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto included in Item 1. "Financial Statements" and risk factors in Part II, 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 may 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.

Colony NorthStar manages capital on behalf of its stockholders, as well as institutional and retail investors in private funds, non-traded and traded REITs and registered investment companies. As of September 30, 2017, our Sponsor had $57.1 billion of assets under management, including Colony NorthStar's balance sheet investments and third-party managed investments.

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, commercial mortgage obligations 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.

From February 6, 2015 to January 19, 2016, we conducted a follow-on public offering of up to $700.0 million in shares, or our Follow-on Offering, 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 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.

From inception through November 13, 2017, we raised total gross proceeds of $1.9 billion, including $188.6 million in DRP proceeds.

Our Investments

The following table presents our investments as of September 30, 2017, adjusted for acquisitions through November 13, 2017 (dollars in thousands):

Investment Type:	Count(1)	Amount(2)(3)	% of Total	Capacity		Primary Locations
Real estate equity(4)						
MOB	108	$ 187,486	5.2%	3.8 million	square feet	IL, GA, OH, TX, IN
Net lease						
Senior housing facilities(5)	84	575,619	15.9%	6,098	units	NY, CA, FL, UK, WA
SNF	236	450,545	12.4%	25,475	beds	PA, MI, KY, IN, WI
Hospital	14	40,772	1.1%	872	beds	CA, TX, MO, UT, GA
Operating						
Senior housing facilities(5)	142	1,863,908	51.3%	13,987	units	CA, WA, TX, NY, IL
SNF	69	369,015	10.2%	7,595	beds	IN, OH, MI, KY, MA
Ancillary(6)	NA	2,435	0.2%	N/A		OH
Total real estate equity	653	3,489,780	96.3%			
Real estate debt						
Mezzanine loan	1	75,000	2.1%			
Total real estate debt	1	75,000	2.1%			
Healthcare-related securities						
Freddie Mac securitization(7)	1	57,514	1.6%			
Total healthcare-related securities	1	57,514	1.6%			
Corporate investments						
Operator platform(8)	1	2	—%			
Total corporate investments	1	2	—%			
Total investments	656	$ 3,622,296	100.0%			

(1) For real estate equity, the count represents the number of properties. For real estate debt and healthcare-related securities, the count represents the number of respective financial instruments. Does not include properties held for sale.
(2) Based on cost for real estate equity investments, which includes purchase price allocations related to net intangibles, deferred costs, other assets, if any, and adjusted for subsequent capital expenditures. Does not include cost of properties held for sale. For real estate debt and securities, based on principal amount. For real estate equity investments, includes cost associated with purchased land parcels that are not included in the count.
(3) Includes our proportionate interest in the underlying real estate held through unconsolidated joint ventures of $1.3 billion.
(4) Classification of investment type based on predominant services provided, but may include other services.
(5) Includes ALF, MCF, ILF and CCRC.
(6) Includes institutional pharmacy 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 I, Item 1. "Financial Statements" for further discussion.
(8) Represents investment in Solstice Senior Living, LLC ("Solstice"). In July 2017, we commenced the transition of operations of the Winterfell portfolio, from the current manager, Holiday AL Management Sub, LLC, an affiliate of Holiday Retirement, to a new manager, Solstice. Solstice is a newly formed joint venture between affiliates of Integral Senior Living, LLC, a leading management company of ILF, ALF and MCF founded in 2000, which owns 80.0%, and us, who owns 20.0%. We completed the transition in November 2017.

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

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.

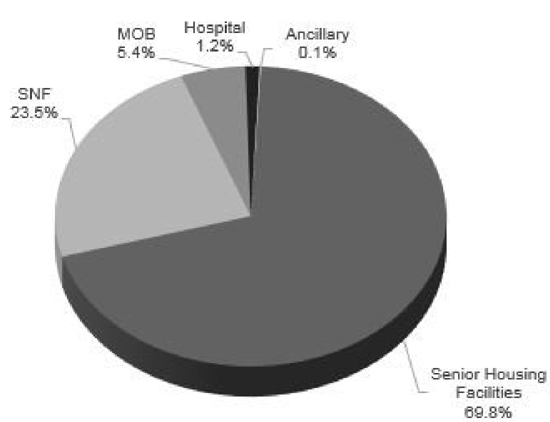
Our equity investments are generally healthcare properties, which are either structured as net leases to healthcare operators or operated through management agreements with independent third-party operators, where applicable under RIDEA structures, whereby we participate directly in the operational cash 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 seniors in a cost-effective setting.

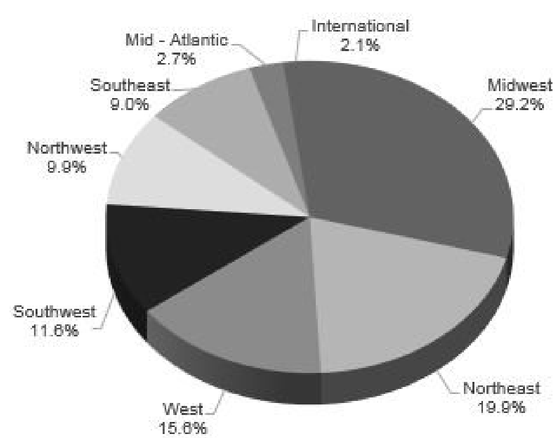
Our Portfolio

As of September 30, 2017, adjusted for acquisitions through November 13, 2017, $3.5 billion, or 96.3%, of our investments were invested in healthcare real estate equity. The following presents our real estate equity portfolio diversity across property type and geographic location based on cost:

Real Estate Equity by Property Type[(1)]



Real Estate Equity by Geographic Location



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

The following table presents a summary of our real estate equity investments as of September 30, 2017, adjusted for acquisitions through November 13, 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	$ 111,630	4	—	—	—	4	West/ Southwest/ Midwest	97.0%
Peregrine	Net Lease	36,498	4	—	—	—	4	Northeast/ Southeast	100.0%
Kansas City	Operating Facilities	15,000	2	—	—	—	2	Midwest	100.0%
Arbors	Net Lease	126,825	4	—	—	—	4	Northeast	100.0%
Watermark Fountains[4]	Net Lease/Operating Facilities	662,660	16	—	—	—	16	Various	Various
Winterfell	Operating Facilities	904,985	32	—	—	—	32	Various	100.0%
Bonaventure	Operating Facilities	99,438	5	—	—	—	5	Northwest	100.0%
Oak Cottage	Operating Facilities	19,427	1	—	—	—	1	West	100.0%
Rochester[5]	Operating Facilities	217,718	10	—	—	—	10	Northeast	97.0%
Total Direct Investments		2,194,181	78	—	—	—	78		
Joint Venture Investments[6]									
Eclipse	Net Lease/Operating Facilities	56,540	44	—	32	—	76	Various	5.6%
Envoy	Net Lease	16,472	—	—	14	—	14	Mid - Atlantic/ Northeast	11.4%
Griffin-American	Net Lease/Operating Facilities	475,324	90	108	41	14	253	Various	14.3%
Espresso	Net Lease	326,477	6	—	152	—	158	Various	36.7%
Trilogy[7]	Operating Facilities	420,786	8	—	66	—	74	Various	29.0%
Total Joint Venture Investments		1,295,599	148	108	305	14	575		
Total		$ 3,489,780	226	108	305	14	653		

(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) Our net lease properties are leased to four operators, with a remaining weighted average lease term of 8.6 years. The weighted average resident occupancy of our operating facilities is 87.4%.
(4) Watermark Fountains portfolio consists of six wholly-owned net lease properties totaling $285.9 million and ten operating facilities properties totaling $376.8 million, in which we own a 97.0% interest. One of these properties consists of 14 condominium units in which we hold future interests, or the Remainder Interests.
(5) Includes the acquisition of a senior housing facility which closed in November 2017. Refer to "Recent Developments" for further discussion.
(6) Represents our proportionate interest in real estate assets held through unconsolidated joint ventures.
(7) Includes institutional pharmacy and therapy businesses and lease purchase buy-out options, which are not subject to property count.

As of September 30, 2017, adjusted for acquisitions through November 13, 2017, our unconsolidated joint venture investments, totaling $1.3 billion, comprised 37.1% of our total real estate equity investments portfolio and represented an 19.0% indirect exposure to over $6.8 billion in real estate equity investment alongside our joint venture partners. As of September 30, 2017, adjusted for acquisitions through November 13, 2017, our unconsolidated joint venture investments included the following:

- Eclipse Joint Venture, a 5.6% interest in a $1.0 billion portfolio.
- Envoy Joint Venture, an 11.4% interest in a $145.0 million portfolio.
- Griffin-American Joint Venture, a 14.3% interest in a $3.3 billion portfolio.
- Espresso Joint Venture, a 36.7% interest in a $0.9 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 September 30, 2017, $75.0 million, or 2.1%, of our investments were invested in real estate debt secured by healthcare facilities, consisting of one loan. The investment matures on January 30, 2021.

The following table presents a summary of our debt investment as of September 30, 2017 (dollars in thousands):

Investment Type:	Count	Principal Amount	Carrying Value	Fixed Rate	Total Unleveraged Current Yield
Mezzanine loan[1]	1	$ 75,000	$ 74,626	10.0%	10.3%

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

As of September 30, 2017, our debt investment was not performing in accordance with the contractual terms of its governing documents as a result of non-monetary defaults. Our debt investment is a mezzanine loan on a portfolio that has several sub-portfolios, two of which have experienced tenant lease defaults and currently have operator transitions in process. The underlying tenant defaults resulted in defaults under the senior loans with respect to the applicable sub-portfolios, which in turn resulted in defaults under our mezzanine loan as of September 30, 2017. We are actively monitoring the actions of the senior lenders of each sub-portfolio and assessing our rights and remedies. Subsequent to September 30, 2017, we are also actively monitoring other potential operator transitions that would impact our mezzanine loan and continue to assess the collectability of principal and interest. As of November 13, 2017, however, contractual debt service on our mezzanine loan has been paid in accordance with contractual terms.

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 10.0% of our total portfolio. As of September 30, 2017, $57.5 million, or 1.6%, 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%, collateralized by a pool of 41 mortgage loans with a weighted average maturity of 9.8 years at the time of the acquisition. We also have an equity interest in properties underlying certain of the loans in the securitization trust through our interest in the Eclipse portfolio.

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

Outlook and Recent Trends

The U.S. economy continues to demonstrate positive underlying fundamentals, with moderate gross domestic product, or GDP, growth and improving employment conditions. With the national unemployment rate lowered to 4.2% as of September and third quarter GDP growth of 3.0%, overall macroeconomic conditions remain strong. The Federal Reserve's June 2017 decision to raise the federal funds rate for the fourth time in almost a decade reflects a consensus that the economic foundation driving the current expansion remains sound, as well as a belief the labor market is close to or already at full employment resulting in wage growth and consumer confidence. Market participants expect another rate increase in December, and while some believe that higher interest rates may potentially reduce investor demand in the broader commercial real estate market, significant increases across long-term rates have yet to materialize and we expect real estate prices and returns to remain attractive while inflation is targeted to remain at 2.0% in the near term.

With major stock indexes at all-time highs and corporate earnings generally exceeding estimates, investor sentiment across both U.S. and European capital markets reflects increased confidence in the global economy. Following a year of political uncertainty given the unexpected results of the Brexit referendum and the U.S. presidential election, strong corporate earnings have overshadowed these political headwinds, providing fundamental support for record stock valuations in the U.S. and Europe. Despite the initial volatility following both outcomes, since the U.S. election the S&P 500 has increased nearly 20% and the Dow Jones Industrial Average has surpassed 23,000, for the first time and is up more than 5,000 points. In addition, benchmark 10-year interest rates in several other key global economies, including England, Germany and Japan, have recently trended to positive territory, signaling normalized market conditions while many global central banks continue to ease monetary policy to combat low inflation and economic stagnation. The pace of these changes may create volatility in global debt and equity markets and at the same time, the Federal Reserve experiences increased pressure to raise interest rates and reduce its large balance sheet holdings of financial instruments acquired during the financial crisis. In addition, the impact of potentially significant fiscal and regulatory policy changes, including potential U.S. corporate and personal tax reform, infrastructure spending, healthcare reform and new trade policies, may also have a considerable impact on the trajectory of the U.S. and global economies over the next few years.

CRE fundamentals remain relatively healthy across U.S. property types. Given certain dynamics in the current market including (i) the continuing strength of the economy; (ii) a historically low interest rate environment; (iii) low relative new CRE supply; and (iv) robust international demand for U.S. commercial real estate, we expect real estate values to trend positively due to increased property-level net operating income, strong transaction volume or a combination of both. Although CRE transaction volume has slowed slightly during 2017, property valuations remain at all-time highs across property sectors. Extreme weather events and natural disasters have had a devastating effect on real estate in impacted markets, both commercial and residential, in 2017. Hurricanes Harvey, Irma, Jose, and Maria have preliminary total cost estimates of up to $200 billion. More recently, wildfires in northern California have left significant damage to hotels, retirement communities and trailer parks. Projected costs and the impact on loans secured by properties in these regions and other regions subject to natural disasters remain uncertain. In addition, approximately $400 billion of ten-year debt originated during 2007 is set to mature during the course of 2017, and these maturities may contribute to periodic volatility in the commercial real estate market. Despite the highest quarterly issuance in three years during the third quarter 2017, overall CMBS issuance remains below pre-crisis levels due in part to uncertainty around the Dodd-Frank risk retention rules and capital requirements for banks. Given these trends, traditional capital sources may lack sufficient lending capacity to absorb the high refinancing demand, which may provide attractive lending opportunities for new market participants such as alternative investment platforms, REITs and insurance companies. Overall, economic and industry trends should support robust CRE investment activity, providing attractive investment opportunities for CRE capital providers with strong balance sheets and high underwriting standards.

Healthcare Markets

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

We believe owners and operators of senior housing facilities and other healthcare properties may benefit from demographic and economic trends, specifically the aging of the 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 a result of these demographic trends, we expect healthcare costs to increase at a faster rate than the available funding from both private sources and government-sponsored healthcare programs. Healthcare spending in the U.S. is projected to increase from $2.6 trillion in 2010 to $4.1 trillion in 2020 (source: CMS) and as healthcare costs increase, insurers, individuals and the U.S. government are pursuing lower cost options for healthcare, and senior housing facilities, such as ALF, MCF, SNF and ILF, are generally more cost effective than higher acuity healthcare settings, such as short or long-term acute-care hospitals, in-patient rehabilitation facilities and other post-acute care settings. The growth in total demand for healthcare, cost constraints, new regulations, broad U.S. demographic changes and the shift towards cost effective community-based settings is resulting in dynamic changes to the healthcare delivery system.

Our SNF operators receive a majority of their revenues from governmental payors, primarily Medicare and Medicaid. Changes in reimbursement rates and limits on the scope of services reimbursed to SNFs could have a material impact on the operators' liquidity and financial condition. SNF operators are currently facing various operational, reimbursement, legal and regulatory challenges due to, among other things, increased wages and labor costs, narrowing of referral networks, lower lengths of stay, staffing shortages and expenses associated with increased government investigations, enforcement proceedings and legal actions related to professional and general liability claims. With a dependence on government reimbursement as the primary source of their revenues, SNF operators are also subject to intensified efforts to impose pricing pressures and more stringent cost controls, through value-based payments, managed care and similar programs, which could result in lower daily reimbursement rates, decreased occupancies and declining operating margins.

Further rules and regulatory changes, if implemented, that are being proposed by the federal and even some state governments to improve quality of care and control healthcare spending may continue to 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. For example, on April 27, 2017, the Centers for Medicare and Medicaid Services, or CMS, issued a proposed rule updating Medicare payments to SNFs by 1.0% under the prospective payment system (PPS) for federal fiscal year 2018, as compared to the 2.4% increase for the federal fiscal year 2017. 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.

Notwithstanding the growth in the industry and favorable 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 occupancy remains relatively stable, construction as a share of inventory remains high with annual inventory growth outpacing annual absorption and properties under construction and in lease-up representing 9.5% of the existing supply (source: NIC). 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 investors and capital to the sector. The supply and demand fundamentals that are driven by the increasing need for healthcare services by an aging population and the ongoing consolidation of the fragmented nature of senior housing real estate ownership have created 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 $188.6 million in DRP proceeds from inception through November 13, 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 nine months ended September 30, 2017 and from inception through September 30, 2017, adjusted for acquisitions through November 13, 2017 (dollars in thousands):

	Nine Months Ended September 30, 2017	From Inception through November 13, 2017
	Amount[(1)]	Amount[(1)(2)]
Investment Type:		
Real estate equity	$ 368,097	$ 3,640,073
Real estate debt	—	220,887
Healthcare-related securities	—	57,514
Corporate investments	2	2
Total	$ 368,099	$ 3,918,476

(1) Includes initial purchase price, including deferred costs and other assets, and may be adjusted upon completion of the final purchase price allocation.
(2) Includes our proportionate interest in real estate held through joint ventures from inception through September 30, 2017.

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.

In October 2017, we obtained a revolving line of credit from an affiliate of Colony NorthStar, our sponsor, for up to $15.0 million at an interest rate of 3.5% plus LIBOR to provide additional short-term liquidity, or the Sponsor Line. The Sponsor Line has an initial one year term, with an extension option of six months. In November 2017, the borrowing capacity under the Sponsor Line was increased to $35.0 million. As of November 13, 2017, we had drawn $15.0 million under the Sponsor Line. We are currently evaluating entering into a corporate credit facility with a third party lender, which we expect would ultimately replace our Sponsor Line if consummated.

Although we have a limitation on the maximum leverage for our portfolio, which approximates 75.0% 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. As of September 30, 2017, our leverage was 58.4%, as defined above.

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 September 30, 2017, AHI provides these asset management services in connection with our Griffin-American and Winterfell portfolios. In addition, Formation Capital, LLC, or 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.

We have been and are currently in the process of transitioning several of our portfolios to new operators or managers. In certain instances, we are transitioning portfolios as part of our overall business plan or as a result of a decision that a seller post acquisition does not want to continue managing the portfolio. For example, in November 2017, we completed the transition of operations of the Winterfell portfolio, which comprises 39.0% of our total revenue for the nine months ended September 30, 2017, from the former manager, an affiliate of Holiday Retirement, to a new manager, Solstice Senior Living, LLC, or Solstice. Solstice is a newly formed joint venture between affiliates of Integral Senior Living, or ISL, a leading management company of senior independent living, assisted living and memory care properties founded in 2000, which owns 80%, and the Company, which owns 20%. We have also recently transitioned operations of the newly acquired Rochester portfolio and Oak Cottage portfolio, and commenced the transition of operations of the Bonaventure portfolio, which was planned in connection with the acquisition.

In other instances, the transition is the result of the failure of an operator to meet their lease obligation, such as the Kansas City portfolio, for which we entered into a new management agreement with a third party manager, ISL, in June 2017, and the Peregrine portfolio, for which we entered into a new lease with an affiliate of Senior Lifestyle Corporation, or SLC, and transitioned two of the four properties to SLC in the third quarter of 2016, with the remaining two properties expected to be transitioned by the first quarter of 2018 following receipt of regulatory approval. Collectively, the Kansas City portfolio and the Peregrine portfolio account for 1.4% of our revenue for the nine months ended September 30, 2017.

We are also actively monitoring the performance of certain of our unconsolidated joint ventures, including Espresso and Eclipse, as the performance is below our expectations, due in part to the impact of ongoing changes in government reimbursement models and increasing enforcement activity in the skilled nursing industry. In a few cases, these issues have resulted in defaults under the borrowings of our unconsolidated joint ventures that are ongoing. For the Espresso portfolio, in particular, three of the portfolios are in the process of being transitioned to new tenants, which has resulted in certain non-monetary events of default under the borrowings of the unconsolidated joint venture, including our mezzanine loan. We are in active dialogue with the affected lenders to the Espresso joint venture. We are also actively monitoring the impact on our mezzanine loan and continue to assess the collectability of principal and interest.

As of September 30, 2017, the unconsolidated ventures in which we invest have recorded impairments and reserves, including a loan loss reserve for a direct financing lease receivable relating to our Espresso unconsolidated investment. Our proportionate ownership share of the loan loss reserve within our Espresso portfolio totaled $15.8 million and was recognized through equity in earnings (losses). During the third quarter of 2017, the Espresso sub-portfolio associated with the direct financing lease commenced an operator transition and determined that certain future cash flows of the direct financing lease are not believed to be collectible. The cash flows deemed not to be collectible primarily impact distributions on mandatorily redeemable units issued at the time of the original acquisition that allowed the seller to participate in certain future cash flows from the direct financing lease following the closing of the original acquisition. Pursuant to ASC 480, *Distinguishing Liabilities from Equity*, the redemption value of the corresponding unconsolidated venture's liability for the units issued to the seller has not been assessed in connection with the commencement of the operator transition, but will be assessed upon modification or termination of the lease, which is expected to occur at the completion of the operator transition.

We will continue to monitor the performance of, and actively manage, all of our investments. However, there can be no assurance that our investments will continue to perform in accordance with the contractual terms of the governing documents or underwriting and we may, in the future, record impairment, as appropriate, if required.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP, which requires the use of estimates and assumptions that involve the exercise of judgment and that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. There have been no material changes to our critical accounting policies since the filing of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Recent Accounting Pronouncements

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

Results of Operations

Comparison of the Three Months Ended September 30, 2017 to September 30, 2016 (dollars in thousands):

	Three Months Ended September 30,		Increase (Decrease)	
	2017	2016	Amount	%
Property and other revenues				
Resident fee income	$ 33,233	$ 26,436	$ 6,797	25.7 %
Rental income	40,507	38,143	2,364	6.2 %
Other revenue	661	594	67	11.3 %
Total property and other revenues	74,401	65,173	9,228	14.2 %
Net interest income				
Interest income on debt investments	1,940	5,072	(3,132)	(61.8)%
Interest income on mortgage loans held in a securitized trust	6,536	—	6,536	100.0 %
Interest expense on mortgage obligations issued by a securitization trust	(4,919)	—	(4,919)	100.0 %
Net interest income	3,557	5,072	(1,515)	(29.9)%
Expenses				
Property operating expenses	42,981	35,489	7,492	21.1 %
Interest expense	15,687	13,424	2,263	16.9 %
Other expenses related to securitization trust	981	—	981	100.0 %
Transaction costs	3,814	31	3,783	12,203.2 %
Asset management and other fees-related party	13,299	8,579	4,720	55.0 %
General and administrative expenses	3,041	3,980	(939)	(23.6)%
Depreciation and amortization	24,454	10,678	13,776	129.0 %
Total expenses	104,257	72,181	32,076	44.4 %
Other income (loss)				
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net	384	—	384	100.0 %
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	(25,915)	(1,936)	(23,979)	1,238.6 %
Equity in earnings (losses) of unconsolidated ventures	(18,557)	(15,604)	(2,953)	18.9 %
Income tax benefit (expense)	(15)	36	(51)	(141.7)%
Net income (loss)	$ (44,487)	$ (17,504)	$ (26,983)	154.2 %

Revenues

Resident Fee Income

Resident fee income increased $6.8 million primarily as a result of the Oak Cottage and Bonaventure portfolio acquisitions, which closed during the first quarter of 2017, as well as the conversion of the Kansas City portfolio from net lease to an operating facility during the second quarter of 2017. Additionally, the completion of expansion projects in the Watermark Aqua portfolio during the fourth quarter of 2016 contributed to the increase.

Rental Income

Rental income increased $2.4 million primarily as a result of the Rochester portfolio acquisition, which closed during the third quarter of 2017, partially offset by lower occupancy in the Winterfell portfolio as well as the conversion of the Kansas City portfolio from net lease to an operating facility during the second quarter of 2017.

Other Revenue

Other revenue increased $0.1 million primarily as a result of additional revenue recognized from non-recurring services and fees at our operating facilities as well as interest earned on uninvested cash.

Net Interest Income

Net interest income decreased $1.5 million primarily as a result of the repayment of three debt investments in the fourth quarter of 2016, partially offset by income earned from our investment in the Class B certificates of a securitization trust.

Expenses

Property Operating Expenses

Property operating expenses increased $7.5 million, primarily as a result of real estate portfolios acquired during 2017, as well as the conversion of the Kansas City portfolio from net lease to RIDEA during the second quarter of 2017. Additionally, the completion of expansion projects in the Watermark Aqua portfolio during the fourth quarter of 2016 contributed to the increase.

Interest Expense

Interest expense increased $2.3 million, primarily as a result of mortgage and seller financing obtained for real estate portfolios acquired during 2017 and the amortization of below market debt resulting from the finalization of the purchase price allocation of the Winterfell portfolio in the first quarter 2017.

Other Expenses Related to Securitization Trust

Other expenses related to securitization trust increased $1.0 million as a result of acquiring the Class B certificates of a securitization trust in the fourth quarter of 2016. Securitization trust expenses are primarily comprised of fees paid to Freddie Mac, the original issuer, as guarantor of the interest and principal payments related to the investment grade securitization bonds.

Transaction Costs

Transaction costs primarily represent professional fees associated with new investments. Transaction costs for the three months ended September 30, 2017 are primarily a result of the Rochester portfolio acquisition, which closed during the third quarter of 2017 and operator transitions. There were no similar transaction costs for the three months ended September 30, 2016.

Asset Management and Other Fees - Related Party

Asset management and other fees - related party increased $4.7 million primarily as a result of the acquisition fee expense related to the Rochester portfolio acquisition, which closed during the third quarter of 2017.

General and Administrative Expenses

General and administrative expenses are incurred at the corporate level and include auditing and professional fees, director fees, and other costs associated with operating our business. General and administrative expenses decreased $0.9 million, primarily as a result of lower overhead costs incurred for the three months ended September 30, 2017.

Depreciation and Amortization

Depreciation and amortization expense increased $13.8 million, primarily as a result of the finalization of the purchase price allocation of the Winterfell portfolio in the first quarter of 2017 as well as the three real estate portfolios acquired during 2017.

Other Income (Loss)

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

Unrealized gain of $0.4 million on senior housing mortgage loans and debt held in a securitization trust represents the change in the fair value of the consolidated assets and liabilities of our investment in a securitization trust.

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 by $3.0 million primarily as a result of a $15.8 million loan loss reserve recorded by the Espresso joint venture as the result of the impairment of real estate accounted for as a direct financing lease. The increase was partially offset by overall lower depreciation and amortization expense recorded by the unconsolidated ventures as acquisition-related intangible assets continue to become fully amortized. The decrease of depreciation and amortization totaled $14.5 million.

Comparison of the Nine Months Ended September 30, 2017 to September 30, 2016 (dollars in thousands):

	Nine Months Ended September 30,		Increase (Decrease)	
	2017	**2016**	**Amount**	**%**
Property and other revenues				
Resident fee income	$ 93,060	$ 76,721	$ 16,339	21.3 %
Rental income	114,189	94,165	20,024	21.3 %
Other revenue	2,191	1,063	1,128	106.1 %
Total property and other revenues	209,440	171,949	37,491	21.8 %
Net interest income				
Interest income on debt investments	5,755	15,112	(9,357)	(61.9)%
Interest income on mortgage loans held in a securitized trust	19,503	—	19,503	100.0 %
Interest expense on mortgage obligations issued by a securitization trust	(14,662)	—	(14,662)	100.0 %
Net interest income	10,596	15,112	(4,516)	(29.9)%
Expenses				
Property operating expenses	118,526	93,868	24,658	26.3 %
Interest expense	44,479	34,951	9,528	27.3 %
Other expenses related to securitization trust	2,947	—	2,947	100.0 %
Transaction costs	6,778	1,563	5,215	333.7 %
Asset management and other fees-related party	32,716	36,659	(3,943)	(10.8)%
General and administrative expenses	8,392	20,538	(12,146)	(59.1)%
Depreciation and amortization	69,223	35,930	33,293	92.7 %
Total expenses	283,061	223,509	59,552	26.6 %
Other income (loss)				
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net	1,108	—	1,108	100.0 %
Realized gain (loss) on investments and other	118	411	(293)	(71.3)%
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)	(61,799)	(29,629)	(32,170)	108.6 %
Equity in earnings (losses) of unconsolidated ventures	(31,234)	(47,073)	15,839	(33.6)%
Income tax benefit (expense)	(56)	(7,088)	7,032	(99.2)%
Net income (loss)	$ (93,089)	$ (83,790)	$ (9,299)	11.1 %

Revenues

Resident Fee Income

Resident fee income increased $16.3 million primarily as a result of the Oak Cottage and Bonaventure portfolio acquisitions, which closed during the first quarter of 2017, as well as the conversion of the Kansas City portfolio from net lease to RIDEA during the second quarter of 2017. Additionally, the completion of expansion projects during the fourth quarter of 2016 as well as overall occupancy and billing rate improvements at the Watermark Aqua and Fountains portfolios contributed to the increase.

Rental Income

Rental income increased $20.0 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 100.0% owned and consolidated in our statements of operations, as well as the Rochester portfolio acquisition, which closed during the third quarter of 2017.

Other Revenue

Other revenue increased $1.1 million primarily as a result of additional revenue recognized from non-recurring services and fees at our operating facilities as well as interest earned on uninvested cash.

Net Interest Income

Net interest income decreased $4.5 million primarily as a result of the repayment of three debt investments in the fourth quarter of 2016, partially offset by income earned from our investment in the Class B certificates of a securitization trust.

Expenses

Property Operating Expenses

Property operating expenses increased $24.7 million, primarily as a result the acquisition of the remaining 60.0% equity interest in the Winterfell portfolio in March 2016, which is now 100.0% owned and consolidated in our statements of operations, as well as the real estate portfolios acquired during 2017 and the conversion of the Kansas City portfolio from net lease to RIDEA during the second quarter of 2017. Additionally, the completion of expansion projects during the fourth quarter of 2016 contributed to the increase.

Interest Expense

Interest expense increased $9.5 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 100.0% owned and consolidated in our statements of operations, as well as mortgage and seller financing obtained for real estate portfolios acquired during 2017.

Other Expenses Related to Securitization Trust

Other expenses related to securitization trust increased $2.9 million as a result of acquiring the Class B certificates of a securitization trust in the fourth quarter of 2016. Securitization trust expenses are primarily comprised of fees paid to Freddie Mac, the original issuer, as guarantor of the interest and principal payments related to the investment grade securitization bonds.

Transaction Costs

Transaction costs primarily represent professional fees associated with new investments. Transaction costs for the nine months ended September 30, 2017 are primarily a result of real estate portfolios acquired during 2017 and operator transitions. Transaction costs for the nine months ended September 30, 2016 are a result of costs associated with the acquisition of the remaining 60.0% interest in the Winterfell portfolio in March 2016.

Asset Management and Other Fees - Related Party

Asset management and other fees - related party decreased $3.9 million, primarily as a result of a decrease in acquisition fees related to a lower level of investment activity during 2017, partially offset by higher asset management fees from increased invested assets subsequent to the third quarter of 2016.

General and Administrative Expenses

General and administrative expenses are incurred at the corporate level and include auditing and professional fees, director fees, and other costs associated with operating our business. General and administrative expenses decreased $12.1 million, primarily as a result of lower overhead costs incurred for the three months ended September 30, 2017, as well as the full payment of previously unallocated operating costs paid by our Advisor on our behalf during 2016.

Depreciation and Amortization

Depreciation and amortization expense increased $33.3 million, primarily as a result of the acquisition of the remaining 60.0% equity interest in the Winterfell portfolio in March 2016 and finalization of the purchase price allocation in the first quarter of 2017 as well as real estate portfolios acquired during 2017.

Other Income (Loss)

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

Unrealized gain of $1.1 million on senior housing mortgage loans and debt held in a securitization trust represents the change in the fair value of the consolidated assets and liabilities of our investment in a securitization trust.

Realized Gain (Loss) on Investments and Other

Realized gain on investments and other of approximately $118,000 for the nine months ended September 30, 2017 resulted from the sale of three remainder interests in the Watermark Fountains portfolio.

Gain (loss) on Consolidation of Unconsolidated Venture

The gain on consolidation of unconsolidated venture of $6.4 million during the nine months ended September 30, 2016 was attributable to an adjustment to the carrying value of our initial 40.0% equity investment in the Winterfell portfolio as a result of the acquisition of the remaining 60.0% 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 improved by $15.8 million primarily as a result of overall lower depreciation and amortization expense recorded by the unconsolidated ventures as acquisition-related intangible assets continue to become fully amortized. The improvement was partially offset by no longer recognizing equity in earnings from the Winterfell portfolio as a result of the acquisition of the remaining equity interest and consolidation of the portfolio in March 2016 as well as a loan loss reserve recorded by the Espresso joint venture as the result of the impairment of real estate accounted for as a direct financing lease.

Income Tax Benefit (Expense)

The income tax expense for the nine months ended September 30, 2017 and 2016 was $0.1 million and $7.1 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 believed that it was unlikely to be realized.

Liquidity and Capital Resources

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

Our current primary sources of liquidity include the following: (i) cash on hand; (ii) cash flow generated by our investments, both from our operating activities and distributions from our unconsolidated joint ventures; (iii) secured or unsecured financings from banks and other lenders, including investment-level financing and/or a corporate credit facility; and (iv) proceeds from full or partial realization of investments.

We currently believe that our capital resources are sufficient to meet our short-term capital requirements. If the performance of our investments falls below our expectations or we are unable to execute our financing strategy, we may be unable to pay distributions to our stockholders and repurchase shares consistent with historical practice or may be required to sell assets. For additional information regarding our liquidity needs and sources of liquidity, see below. As of November 13, 2017, we had $26.0 million of unrestricted cash.

Liquidity Needs

Commitments

Our commitments generally include principal and interest payments on our borrowings. Refer to Note 7, "Borrowings" for further information.

In addition, we use or have used our capital resources to make certain payments to our Advisor (or its predecessor and NorthStar Securities, LLC), or 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, pursuant to our advisory agreement, 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. We renewed our advisory agreement with our Advisor on June 30, 2017 for an additional one-year term on terms identical to those previously in effect. Refer to "Related Party Arrangements" for further information regarding our advisory fees.

Distributions

To continue to qualify as a REIT, we are required to distribute annually at least 90% of our taxable income, subject to certain adjustments, to stockholders. In addition, we generally pay distributions on a monthly basis based on daily record dates. Refer to "Distributions Declared and Paid" for further information.

Repurchases

We have adopted a Share Repurchase Program effective August 7, 2012, as amended on April 7, 2016, which enables stockholders to sell their shares to us in limited circumstances. However, our board of directors may amend, suspend or terminate our Share Repurchase Program at any time, subject to certain notice requirements. Refer to Part II, Item 2. "Unregistered Sales of Equity Securities and Use of Proceeds—Purchases of Equity Securities by the Issuer and Affiliated Purchasers" for further information.

Sources of Liquidity

Cash From Operations

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

The failure of any of our investments to perform consistent with our expectations may have a material adverse impact on our liquidity needs. In addition, we have significant joint ventures, with unconsolidated joint ventures and consolidated joint ventures representing 37.1% and 20.2%, respectively, of our total real estate equity investments as of September 30, 2017, and we may not be able to control the timing of distributions from these investments, if any.

Borrowings

We have various forms of asset-level financing. Refer to Note 7, "Borrowings" of Part I, Item 1. "Financial Statements" for further information. We also intend to seek additional asset-level financing in the near term, though there is no assurance that we will be able to obtain such financing on desirable terms or at all.

In addition, in October 2017, we obtained the Sponsor Line for up to $15.0 million at an interest rate of 3.5% plus LIBOR to provide additional short-term liquidity. The Sponsor Line has an initial one year term, with an extension option of six months. In November 2017, the borrowing capacity under the Sponsor Line was increased to $35.0 million. As of November 13, 2017, we had drawn $15.0 million under the Sponsor Line. We are currently evaluating entering into a corporate credit facility with a third party lender, which we expect would ultimately replace our Sponsor Line if consummated.

Our charter limits us from incurring borrowings that would exceed 300.0% of our net assets. We cannot exceed this limit unless any excess in borrowing over such level is approved by a majority of our independent directors. We would need to disclose any such approval to our stockholders in our next quarterly report along with the justification for such excess. An approximation of this leverage calculation, excluding indirect leverage held through our unconsolidated joint venture investments and any securitized mortgage obligations to third parties, is 75.0% of our assets, other than intangibles, before deducting loan loss reserves, other non-cash reserves and depreciation and as of September 30, 2017, our leverage was 58.4%.

Offering

From inception through November 13, 2017, we have raised total gross proceeds of $1.9 billion, including $188.6 million in DRP proceeds. We are no longer raising capital from our Offering and we have invested substantially all of the net proceeds from our Offering. Since the successful completion of our Offering, we have only been raising new equity capital through our DRP, and as such, do not expect significant new investment activity.

Realization of Investments

Certain of our investments may be repaid or sold, which we expect could generate additional sources of liquidity. However, we cannot guarantee our ability to execute on such transactions on favorable terms or at all. Further, such transactions may result in a reduction of our net income and limit our ability to make distributions to stockholders.

Cash Flows

The following presents a summary of our consolidated statements of cash flows for the nine months ended September 30, 2017 and 2016 (dollars in thousands):

	Nine Months Ended September 30,		
Cash flow provided by (used in):	2017	2016	2017 vs. 2016 Change
Operating activities	$ 11,708	$ (1,481)	$ 13,189
Investing activities	(305,331)	(167,274)	(138,057)
Financing activities	97,916	(43,945)	141,861
Net increase (decrease) in cash and cash equivalents	$ (195,707)	$ (212,700)	$ 16,993

Nine Months Ended September 30, 2017 Compared to September 30, 2016

Operating Activities

Net cash provided by operating activities was $11.7 million for the nine months ended September 30, 2017 compared to net cash used in operating activities of $1.5 million for the nine months ended September 30, 2016. The change of $13.2 million in net cash provided by operating activities was primarily related to earnings from new investments, as well as a decrease in acquisitions fees and other general and administrative expenses paid to our Advisor.

Investing Activities

Our cash flows from investing activities are generally used to fund investment acquisitions, net of any repayment activity. Net cash used in investing activities increased by $138.1 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. Cash flows used in investing activities for the nine months ended September 30, 2017 primarily relate to the acquisition of three operating real estate investments and additional capital improvements to existing investments. Cash flow used in investing activities for the nine months ended September 30, 2016 primarily relate to the acquisition of the remaining 60.0% equity interest in the Winterfell portfolio in March 2016 and additional capital contributions to joint venture investments.

Financing Activities

Our cash flows from financing activities are principally impacted by our distributions paid on common stock and changes in our mortgage notes payable. Cash flow provided by financing activities was $97.9 million for the nine months ended September 30, 2017 compared to cash flow used in financing activities of $43.9 million. The change of $141.9 million primarily relates to an increase in net proceeds from mortgage notes payable, partially offset by an increase in shares redeemed for cash and distributions paid on common stock.

Off-Balance Sheet Arrangements

As of September 30, 2017, 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 1. "Financial Statements" for a discussion of such unconsolidated ventures in our consolidated financial statements. In each case, our exposure to loss is limited to the carrying value of our investment.

Related Party Arrangements

Advisor

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

In June 2017, our advisory agreement was renewed for an additional one-year term commencing on June 30, 2017, with terms identical to those in effect through June 30, 2017.

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 15.0% 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 nine months ended September 30, 2017 and the amount due to related party as of September 30, 2017 and December 31, 2016 (dollars in thousands):

Type of Fee or Reimbursement	Financial Statement Location	Due to Related Party as of December 31, 2016	Nine Months Ended September 30, 2017 Incurred	Nine Months Ended September 30, 2017 Paid	Due to Related Party as of September 30, 2017
Fees to Advisor Entities					
Asset management	Asset management and other fees-related party	$ 12	$ 25,386	$ (22,414)	$ 2,984
Acquisition(1)	Investments in unconsolidated ventures/Asset management and other fees-related party	66	7,872	(7,841)	97
Reimbursements to Advisor Entities					
Operating costs(2)	General and administrative expenses	141	6,592	(4,408)	2,325
Total		$ 219	$ 39,850	$ (34,663)	$ 5,406

(1) Acquisition/disposition fees incurred to our Advisor related to debt investments are generally offset by origination/exit fees paid to us by borrowers if such fees are required from the borrower. Acquisition fees related to equity investments are included in asset management and other fees-related party in our consolidated statements of operations. Acquisition fees related to investments in unconsolidated joint ventures are included in investments in unconsolidated ventures on our consolidated balance sheets. From inception through September 30, 2017, our Advisor waived $0.3 million of acquisition fees related to healthcare-related securities. We did not incur any disposition fees during the nine months ended September 30, 2017, nor were any such fees outstanding as of December 31, 2016.

(2) As of September 30, 2017, our Advisor does not have any unreimbursed operating costs which remain eligible to be allocated to us.

Investments in Joint Ventures

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

Portfolio	Partner(s)	Acquisition Date	Ownership	Purchase Price(1)	Carrying Value as of September 30, 2017
Eclipse	Colony NorthStar/ Formation Capital, LLC	May-2014	5.6%	$ 59,097	$ 13,761
Griffin-American	Colony NorthStar	Dec-2014	14.3%	463,436	134,356

(1) Purchase price represents our proportionate share of 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.

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

In December 2015, we, through a joint venture with Griffin-American Healthcare REIT III, Inc., or GAHR3, a REIT sponsored and advised by AHI, acquired a 29.0% interest in the Trilogy portfolio, a $1.2 billion healthcare portfolio and contributed $201.7 million for our interest. The purchase was approved by our board of directors, including all of our independent directors. In June 2016, in accordance with the joint venture agreement, we funded an additional capital contribution of $18.8 million. Additionally, in January 2017 and September 2017, we funded capital contributions of $5.3 million and $3.0 million, respectively, for a total contribution of $228.8 million. The additional fundings related to certain business initiatives, including the acquisition of additional senior housing and skilled nursing facilities and repayment of certain outstanding obligations.

<u>Origination of Mezzanine Loan</u>

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

Recent Developments

Distribution Reinvestment Plan

For the period from October 1, 2017 through November 13, 2017, we issued 1.2 million shares pursuant to the DRP, representing gross proceeds of $11.1 million.

Share Repurchases

From October 1, 2017 through November 13, 2017, we repurchased 2.0 million shares for a total of $18.7 million or a weighted average price of $9.20 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 cash on hand, borrowings or other available capital. Repurchase requests are not expected to exceed proceeds received from our DRP.

Rochester Acquisition

In November 2017, we completed the second phase of the Rochester portfolio acquisition, acquiring a 45 unit ILF for $12.4 million. The acquisition was 100.0% seller financed at a fixed interest rate of 6.0%. No additional equity was contributed, other than closing costs.

Colony NorthStar Line of Credit

In addition, in October 2017, we obtained the Sponsor Line for up to $15.0 million at an interest rate of 3.5% plus LIBOR to provide additional short-term liquidity. The Sponsor Line has an initial one year term, with an extension option of six months. In November 2017, the borrowing capacity under the Sponsor Line was increased to $35.0 million. As of November 13, 2017, we had drawn $15.0 million under the Sponsor Line. We are currently evaluating entering into a corporate credit facility with a third party lender, which we expect would ultimately replace our Sponsor Line if consummated.

Inflation

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

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

Non-GAAP Financial Measures

Funds from Operations and Modified Funds from Operations

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

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

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

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, the Investment Program Association, or the IPA, an industry trade group, standardized a performance measure known as MFFO and recommends the use of MFFO for such REITs. Management believes MFFO is a useful performance measure to evaluate our business and further believes it is important to disclose MFFO in order to be consistent with the IPA recommendation and other non-traded REITs. MFFO 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 U.S. Securities and Exchange Commission, or SEC, nor any other regulatory body has approved the acceptability of the adjustments that we use to calculate MFFO. In the future, the SEC or another regulatory body may decide to standardize permitted adjustments across the non-listed REIT industry and we may need to adjust our calculation and characterization of MFFO.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Funds from operations:				
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (44,390)	$ (17,568)	$ (93,062)	$ (83,735)
Adjustments:				
Depreciation and amortization	24,454	10,678	69,223	35,930
Depreciation and amortization related to unconsolidated ventures	9,527	23,657	30,713	68,131
Depreciation and amortization related to non-controlling interests	(147)	(85)	(334)	(477)
(Gain) loss on consolidation of unconsolidated venture	—	—	—	(6,408)
Realized (gain) loss from sales of property related to unconsolidated ventures	(734)	—	(1,281)	—
Impairment losses of depreciable real estate held by unconsolidated ventures	798	—	4,328	—
Funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (10,492)	$ 16,682	$ 9,587	$ 13,441
Modified funds from operations:				
Funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (10,492)	$ 16,682	$ 9,587	$ 13,441
Adjustments:				
Acquisition fees and transaction costs	8,380	102	14,107	13,881
Straight-line rental (income) loss	(324)	(852)	(1,287)	(1,538)
Amortization of premiums, discounts and fees on investments and borrowings	1,088	687	3,114	1,601
Amortization of discounts on healthcare-related securities	389	—	1,122	—
Deferred tax (benefit) expense	—	—	—	7,026
Adjustments related to unconsolidated ventures[1]	21,056	3,058	28,798	12,221
Adjustments related to non-controlling interests	(119)	(16)	(132)	(21)
Realized (gain) loss on investments and other	—	—	(118)	(411)
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust	(384)	—	(1,108)	—
Modified funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	$ 19,594	$ 19,661	$ 54,083	$ 46,200

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

Distributions Declared and Paid

We generally pay distributions on a monthly basis based on daily record dates. 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 September 30, 2017, we have 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.

During the third quarter of 2017, our board of directors approved a daily cash distribution of $0.00184932 per share of common stock for each of the three months ended December 31, 2017.

The following table presents distributions declared for the nine months ended September 30, 2017 and year ended December 31, 2016 (dollars in thousands):

	Nine Months Ended September 30, 2017		Year Ended December 31, 2016	
Distributions[1]				
Cash	$ 43,684		$ 55,223	
DRP	50,346		67,919	
Total	$ 94,030		$ 123,142	
Sources of Distributions[1]				
FFO[2]	$ 9,587	10%	$ 20,402	17%
Offering proceeds - Other	84,443	90%	102,740	83%
Total	$ 94,030	100%	$ 123,142	100%
Cash Flow Provided by (Used in) Operations	$ 11,708		$ 3,972	

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

(2) From inception of our first investment on April 5, 2013 through September 30, 2017, we declared $333.4 million in distributions. Cumulative FFO for the period from April 5, 2013 through September 30, 2017 was $7.4 million.

Distributions in excess of our cash flow provided by operations were paid using Offering proceeds, including from the purchase of additional shares by Colony NorthStar, or other available capital sources. 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. We expect that our distributions will eventually be paid from cash flow provided by operations. However, our ability to pay distributions using cash flow provided by operations depends upon our operating performance, including the financial performance of our investments in the current real estate and financial environment, the type and mix of our investments and accounting of our investments in accordance with U.S. GAAP. We will continue to assess our distribution policy in light of our operating performance and capital needs.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

Changes in interest rates may affect our net income as a result of changes in interest expense incurred in connection with floating-rate borrowings used to finance our equity investments, as well as changes in net interest income of our real estate debt investments. As of September 30, 2017, 13.0% 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, 100.0% 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 September 30, 2017, a hypothetical 100 basis point increase in interest rates would increase net interest expense by $1.8 million annually. We did not have any floating rate real estate debt investments as of September 30, 2017.

A change in interest rates could affect the value of our fixed-rate debt investments. For instance, an increase in interest rates would result in a higher required yield on investments, which would decrease the value on existing fixed-rate investments in order to adjust their yields to current market levels. As of September 30, 2017, we had one fixed-rate debt investment with a carrying value of $74.6 million.

Credit Spread Risk

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

Credit Risk

We are subject to the credit risk of the operators or managers of our healthcare properties. We undertake a rigorous credit evaluation of each healthcare operator prior to acquiring healthcare properties. This analysis includes an extensive due diligence investigation of the operator or manager's business as well as an assessment of the strategic importance of the underlying real estate to the operator or manager's core business operations. Where appropriate, we may seek to augment the operator or manager's commitment to the facility by structuring various credit enhancement mechanisms into the underlying leases, management agreements or joint venture arrangements. These mechanisms could include security deposit requirements or guarantees from entities we deem creditworthy. In addition, we actively monitor lease coverage at each facility within our healthcare portfolio. The extent of pending or future healthcare regulation may have a material impact on the valuation and financial performance of this portion of our portfolio. For the nine months ended September 30, 2017, gross revenues from two of our operators, Watermark Retirement Communities and Holiday Retirement, represented 45.8% and 39.0%, respectively, of our total revenues attributable to direct investments. We recently completed the transition of all Holiday Retirement operations to Solstice, at which point Solstice, together with its affiliates, is expected to represent approximately 40.6% of our total revenues attributable to direct investments. No other operator generated more than 10.0% of gross revenues during the nine months ended September 30, 2017.

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 nine months ended September 30, 2017, one debt investment and the consolidated securitization trust contributed 100.0% of interest income. As of September 30, 2017, one borrower, a subsidiary of the Espresso joint venture, represented 100.0% of the aggregate principal amount of our debt investments. Currently, two of the portfolios within the Espresso joint venture are in the process of being transitioned to new operators, which has resulted in certain non-monetary events of default under the borrowings of the Espresso joint venture, including our mezzanine loan. We are in active dialogue with the other lenders to the Espresso joint venture and continue to monitor the situation.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

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

Internal Control over Financial Reporting

Changes in Internal Control over Financial Reporting.

There have not been any changes in the Company's 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, the Company's internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, as filed with the SEC on March 30, 2017, except as noted below. In addition, see also the discussion set forth in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources".

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

Our organizational documents permit us to pay distributions from any source, including Offering proceeds, borrowings or sales of assets. We have not established a limit on the amount of proceeds we may use to fund distributions. 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. For the nine months ended September 30, 2017, we declared distributions of $94.0 million compared to cash provided by operating activities of $11.7 million. For the declared distributions during the nine months ended September 30, 2017, $84.4 million, or 89.8%, of the distributions declared were paid using proceeds from our Offering. 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. For the declared distributions during the year ended December 31, 2016, $102.7 million, or 83.4% of the distributions declared were paid using proceeds from our Offering. If we pay distributions from sources other than our cash flow provided by operations, we will have less cash available for investments and your overall return may be reduced.

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

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 September 30, 2017, 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	19,263	177,445
Total	192,701	$ 1,919,735

(1) Excludes shares repurchased.

For the period from the commencement of our Follow-on Offering through September 30, 2017, 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 September 30, 2017, 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 September 30, 2017, 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 September 30, 2017, including recycled capital, we used proceeds of $1.4 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 $82.8 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 100.0% of the most recently disclosed estimated value per share.

We fund repurchase requests received during a quarter with cash on hand, borrowings or other available capital. Repurchase requests are not expected to exceed proceeds received from our DRP. However, to the extent that the aggregate DRP proceeds are less than the amount of 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 nine months ended September 30, 2017, we repurchased shares of our common stock as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan or Program
January 1 to January 31	—	$ —	—	
February 1 to February 28	936,455	9.19	936,455	(1)
March 1 to March 31	—	—	—	
April 1 to April 30	—	—	—	
May 1 to May 31	1,152,784	9.23	1,152,784	(1)
June 1 to June 30	—	—	—	
July 1 to July 31	—	—	—	
August 1 to August 31	1,610,632	9.23	1,610,632	(1)
September 1 to September 30	—	—	—	
Total	3,699,871	$ 9.22	3,699,871	

(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 September 30, 2017, we had no unfulfilled repurchase requests.

Unregistered Sales of Equity Securities

During the three months ended September 30, 2017, 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. Exhibits

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

* Filed herewith

SIGNATURES

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

NorthStar Healthcare Income, Inc.

Date: November 14, 2017

By: /s/ RONALD J. JEANNEAULT

Name: Ronald J. Jeanneault

Title: *Chief Executive Officer and President*

By: /s/ FRANK V. SARACINO

Name: Frank V. Saracino

Title: *Chief Financial Officer and Treasurer*

Exhibit 31.1

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

I, Ronald J. Jeanneault, certify that:

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

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

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

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

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

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

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

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

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

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

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

By: /s/ RONALD J. JEANNEAULT

Name: Ronald J. Jeanneault
Title: *Chief Executive Officer and President*
Date: November 14, 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 Quarterly Report on Form 10-Q of NorthStar Healthcare Income, Inc.;

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

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

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

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

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

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

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

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

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

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

By: /s/ FRANK V. SARACINO

Name:	Frank V. Saracino
Title:	*Chief Financial Officer and Treasurer*
Date:	November 14, 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 Quarterly Report on Form 10-Q of NorthStar Healthcare Income, Inc. (the "Company") for the quarterly period ended September 30, 2017, 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: November 14, 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 Quarterly Report on Form 10-Q of NorthStar Healthcare Income, Inc. (the "Company") for the quarterly period ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Frank V. Saracino, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ FRANK V. SARACINO
Frank V. Saracino
Chief Financial Officer and Treasurer
Date: November 14, 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.