SUPPLEMENTAL FINANCIAL REPORT - YEAR ENDED DECEMBER 31, 2019

NorthStar
HEALTHCARE INCOME

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This presentation may contain forward-looking statements within the meaning of the federal securities laws. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” or “potential” or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and contingencies, many of which are beyond our control, and may cause actual results to differ significantly from those expressed in any forward-looking statement. Among others, the following uncertainties and other factors could cause actual results to differ from those set forth in the forward-looking statements: operating costs and business disruption may be greater than expected; the Company's operating results may differ materially from the information presented in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2019; the fair value of the Company's investments may be subject to uncertainties; the Company's use of leverage could hinder its ability to make distributions and may significantly impact its liquidity position; given the Company's dependence on its external manager, an affiliate of Colony Capital, Inc., any adverse changes in the financial health or otherwise of its manager or Colony Capital, Inc. could hinder the Company's operating performance and return on stockholders’ investment; the ability to realize substantial efficiencies as well as anticipated strategic and financial benefits, including, but not limited to expected returns on equity and/or yields on investments; the impact on the Company's liquidity position of any further impairments or defaults under its mezzanine loan; the Company's liquidity, including its ability to fund capital contributions in its unconsolidated joint ventures and to continue to generate liquidity by more accelerated sales of certain lower yielding and non-core assets; the timing of and ability to deploy available capital; the Company’s ability to re-commence the payment of dividends at all in the future; the timing of and ability to complete repurchases of the Company’s stock; the ability of the Company to refinance certain mortgage debt on similar terms to those currently existing or at all; and the impact of actual or threatened public health epidemics or outbreaks, such as the COVID-19 pandemic, or of legislative, regulatory and competitive changes. The foregoing list of factors is not exhaustive. Additional information about these and other factors can be found in in Part I, Item 1A of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2019 as well as in the Company’s other filings with the Securities and Exchange Commission (the “SEC”).

The Company cautions investors not to unduly rely on any forward-looking statements. The forward-looking statements speak only as of the date of this presentation. The Company is under no duty to update any of these forward-looking statements after the date of this presentation, nor to conform prior statements to actual results or revised expectations, and the Company does not intend to do so.

References to “we”, “us”, “our” or the “Company” refer to NorthStar Healthcare Income, Inc. and its subsidiaries unless the context specifically requires otherwise.

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I. OUR INVESTMENTS

We conduct our business through the following five segments, which are based on how management reviews and manages our business:

Direct Investments - Net Lease - Healthcare properties operated under net leases with tenant operators.

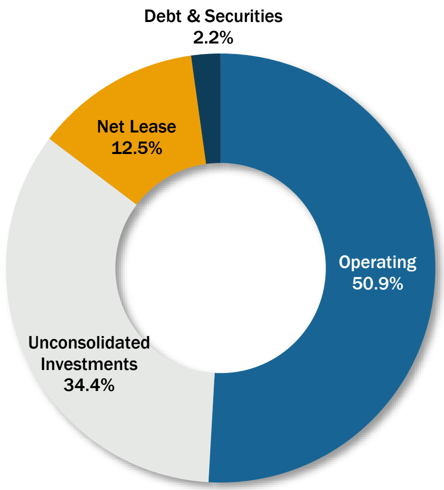
Direct Investments - Operating - Healthcare properties operated pursuant to management agreements with healthcare operators.

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

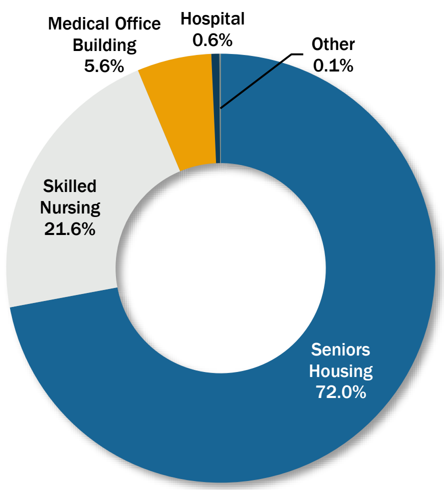
Debt and Securities Investments - Mortgage loans or mezzanine loans to owners of healthcare real estate and commercial mortgage backed securities backed primarily by loans secured by healthcare properties.

Corporate - Includes corporate level asset management and other fees - related party and general and administrative expenses.

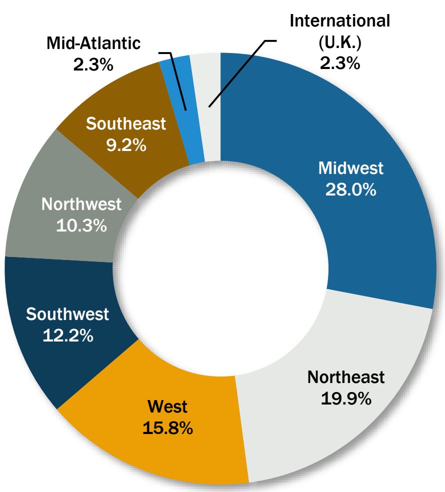
Investments by Segments



Investments by Property Type



Investments by Geographic Location



Based on cost as of December 31, 2019. Property type classification based on predominant services provided, but may include other services.

I. OUR INVESTMENTS (CONT.)

NorthStar HEALTHCARE INCOME

($ In thousands)

Investment Type / Portfolio	Amount[3]	Properties Count By Type[1][2] SH	MOB	SNF	Hospitals	Total	Primary Locations	Ownership Interest
Direct Investments - Net Lease								
Watermark Fountains[4]	$ 288,836	6	-	-	-	6	Various	100.0%
Arbors	126,825	4	-	-	-	4	Northeast	100.0%
Peregrine	10,000	1	-	-	-	1	Southeast	100.0%
Subtotal	425,661	11	-	-	-	11		
Direct Investments - Operating								
Winterfell	904,985	32	-	-	-	32	Various	100.0%
Watermark Fountains[4]	356,914	9	-	-	-	9	Various	97.0%
Rochester	219,518	10	-	-	-	10	Northeast	97.0%
Watermark Aqua	116,216	5	-	-	-	5	West/Southwest/Midwest	97.0%
Avamere	99,438	5	-	-	-	5	Northwest	100.0%
Oak Cottage	19,427	1	-	-	-	1	West	100.0%
Kansas City	15,000	2	-	-	-	2	Midwest	100.0%
Subtotal	1,731,498	64	-	-	-	64		
Unconsolidated Investments								
Griffin-American	456,639	92	108	41	9	250	Various	14.3%
Trilogy[5]	346,219	9	-	67	-	76	Various	23.2%
Espresso	317,166	6	-	148	-	154	Various	36.7%
Eclipse	50,437	44	-	23	-	67	Various	5.6%
Solstice[6]	-	-	-	-	-	-	Various	20.0%
Subtotal	1,170,461	151	108	279	9	547		
Debt and Securities Investments								
Mezzanine Loan[7]	74,182	-	-	-	-	-		
Total Investments	$ 3,401,802	226	108	279	9	622		

As of December 31, 2019. See 'Footnotes' in the Appendix.

II. BUSINESS DEVELOPMENTS & PORTFOLIO HIGHLIGHTS – YEAR ENDED 2019

NorthStar HEALTHCARE INCOME

Business & Financial

- GAAP net loss decreased to $77.8 million for the year ended December 31, 2019 as compared to $152.0 million for the year ended December 31, 2018, primarily due to the following:
  - Lower impairment recognized by the Griffin and Espresso joint ventures;
  - Lower depreciation and amortization expense due to certain intangible assets becoming fully amortized; and
  - Lower real estate impairment expense recorded for our consolidated investments in 2019 compared to 2018.
- Impairment losses totaling $27.6 million were recorded due to sustained performance issues at properties within the Rochester, Kansas City and Peregrine portfolios.
- On a same store basis, performance of our direct operating investments has improved, generating rental and resident fee income, net of property operating expenses, of $76.8 million in 2019 as compared to $67.3 million in 2018, primarily due to the following:
  - Higher operating revenues as a result of billing rate increases;
  - Lower operating expenses, primarily staffing and salary related, incurred by our ILF portfolios; and
  - Non-recurring resident fee income and one-time expense savings recognized by select portfolios in 2019.
- Operating portfolio's managed by Solstice Senior Living and Watermark Retirement Communities maintained an average occupancy of 79.8% and 83.5%, respectively, during 2019, which was overall consistent with 2018.
- The performance of our unconsolidated investment portfolios improved in 2019 as compared to prior year results:
  - The Espresso joint venture completed several operator transitions for its net lease SNF portfolio, which resulted in higher rental income collected;
  - The Trilogy joint venture continued its expansion and development of operating real estate, while same store improvements drove higher operating results; and
  - The Envoy joint venture sold its remaining investments, which resulted in residual earnings upon the completion of the sale.
- Distributions from our unconsolidated ventures continue to be limited by reinvestment and development in the Trilogy and Griffin-American joint ventures and working capital needs for the Espresso joint venture, which have negatively impacted our liquidity position.
- Modified Funds from Operations increased to $58.7 million for 2019 as compared to $46.4 million for 2018 due to the aforementioned operational improvements and reductions in corporate operating costs and asset management fees.

II. BUSINESS DEVELOPMENTS & PORTFOLIO HIGHLIGHTS – YEAR ENDED 2019

NorthStar HEALTHCARE INCOME

Investment Activity

Q1 2019

- Envoy joint venture, of which we own 11.4%, completed the sale of its remaining 11 properties, generating net proceeds to us of $4.3 million.
- Contributed $2.4 million to the Trilogy joint venture for senior housing campus development initiatives

Q2 2019

- Sold two properties within the Peregrine portfolio for $19.7 million, generating net proceeds of $3.3 million, after the repayment of the outstanding mortgage principal balance of $16.4 million and transaction costs.
- Contributed $37.4 million to the Griffin-American joint venture to refinance outstanding mortgage debt, which has stabilized the overall capital structure of the joint venture.

Q3 2019

- Eclipse joint venture, of which we own 5.6%, sold nine properties, generating net proceeds to us of $2.1 million.

Q4 2019

- Received a partial repayment of principal on the Espresso mezzanine loan totaling $0.8 million, in connection with the borrower's sale of a net lease facility.
- Griffin-American joint venture, of which we own 14.3%, sold three hospitals, generating net proceeds to us of $16.9 million.

Capitalization & Liquidity

- Effective February 1, 2019, our board of directors determined to suspend distributions to preserve capital and liquidity.
- In April 2019, we terminated our revolving credit facility, which we had not previously drawn upon.
- In May 2019, we extended the maturity date of our revolving line of credit from an affiliate of Colony Capital through December 2021.
- In July 2019, we refinanced an existing $12.4 million seller note payable in the Rochester portfolio, with a $12.8 million mortgage note payable. The new mortgage note carries an interest rate of 2.90% plus LIBOR, maturing in August 2021.
- In December 2019, our board of directors approved and established an estimated value per share of our common stock of $6.25 as of June 30, 2019.
- During 2019, we repurchased $10.7 million of our common stock. Subsequent to 2019, through March 17, 2020, we repurchased $2.0 million of our common stock.
- During 2019, we spent $22.3 million on capital expenditures for our direct investments.

III. KEY PORTFOLIO METRICS

($ In thousands)

Key Metrics
(as of and for the year ended December 31, 2019)

Direct Investments:			Consolidated Debt:		
Net lease properties		11	Total mortgage and other notes payable	$	1,455,413
Weighted average remaining lease term		7.4 years	Leverage as a % of adjusted assets[1]		60.7%
Operating properties		64	Repayment of mortgage notes[2]	$	51,734
Weighted average occupancy		81.6%	Borrowings from mortgage notes	$	12,800
Gross asset amount	$	1,931,032			
Capital expenditures[2]	$	22,323			

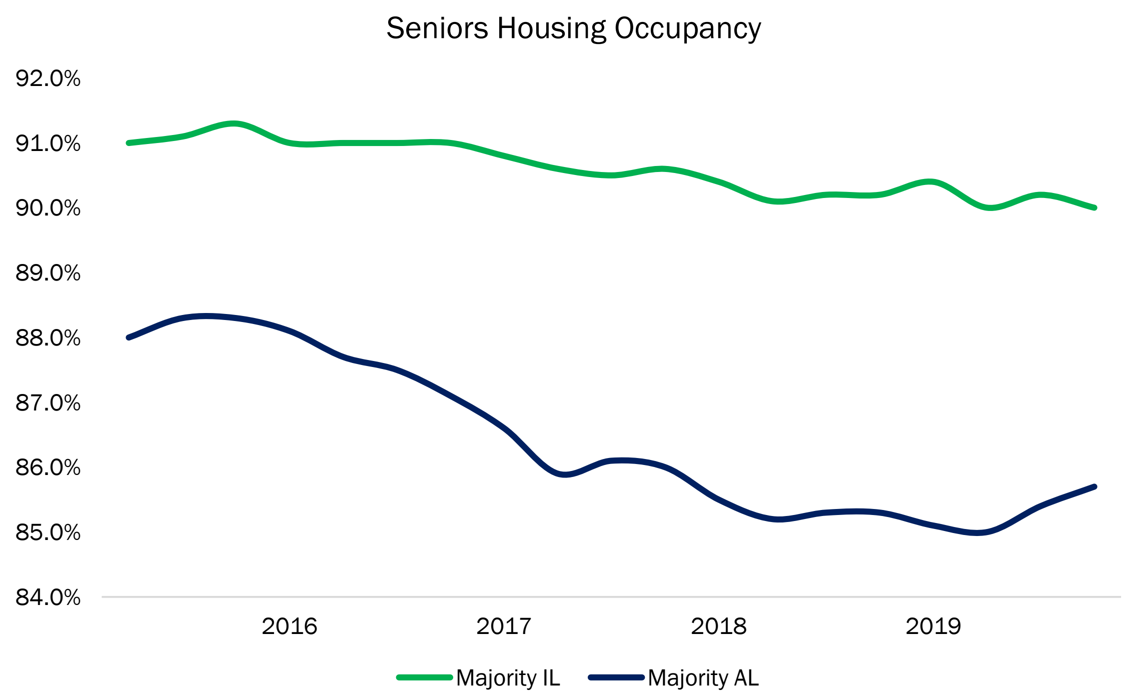
Operator / Tenant Information	Properties Managed	Units Under Management[3]	Property and Other Revenues[4]	% of Total Property and Other Revenues
Watermark Retirement Communities	30	5,265	$ 152,351	52.0%
Solstice Senior Living[5]	32	4,000	105,497	36.0%
Avamere Health Services	5	453	16,979	5.8%
Arcadia Management	4	572	10,615	3.6%
Integral Senior Living[5]	3	162	6,417	2.2%
Peregrine Senior Living[6]	-	-	598	0.2%
Senior Lifestyle Corporation[7]	1	63	-	0.0%
Other[8]	-	-	721	0.2%
Total	**75**	**10,515**	**$ 293,178**	**100.0%**

See “Footnotes” in the Appendix

IV. HEALTHCARE MARKET UPDATE

Seniors Housing

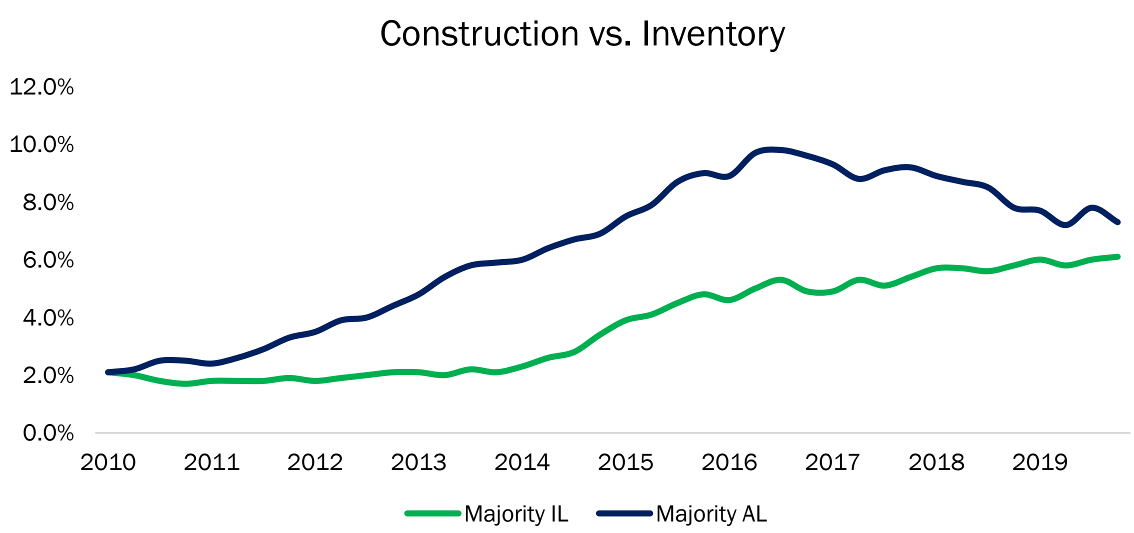
- Seniors housing occupancy increased slightly to 88.0% in Q4 2019 from 87.9% in Q3 2019
  - Seniors housing occupancy is still 220 bps below 4Q 2014 peak of 90.2%
  - Independent Living ("IL"): Decreased slightly to 90.0% (Q4 2019) from 90.2% (Q3 2019)
  - Assisted Living ("AL"): Increased to 85.7% (Q4 2019) from 85.4% (Q3 2019)



Source: National Investment Center for Seniors Housing & Care (NIC)

Seniors Housing (cont.)

- Although seniors housing construction as a percentage of inventory decreased slightly to 6.7% (Q4 2019) from 6.9% (Q3 2019), construction remains elevated
  - IL: Units under construction is near an all-time high of 6.1% of inventory, up from 6.0% in Q3 2019
  - AL: Units under construction decreased to 7.3% (Q4 2019) from 7.8% (Q3 2019)



Source: National Investment Center for Seniors Housing & Care (NIC)

NorthStar HEALTHCARE INCOME

Coronavirus Update

- The Centers for Disease Control and Prevention has stated that older adults are at a higher risk for serious illness from the coronavirus.
- Due to the fact our portfolio is comprised entirely of healthcare real estate, with a focus on the mid-acuity senior housing sector, the coronavirus will impact our operating results to the extent that its continued spread:
  - Reduces occupancy at our properties;
  - Results in quarantines for residents and/or bans on admissions at our properties;
  - Reduces the ability to continue to obtain necessary goods and provide adequate staffing at our properties; and/or
  - Increases the cost burdens faced by our operators, including significant overtime, agency staffing, and other related costs.
- The extent to which the coronavirus impacts our operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including, but not limited to:
  - The duration of the outbreak;
  - New information that may emerge concerning the severity of the coronavirus;
  - The actions taken to contain the coronavirus or treat its impact.
- At this time, we are unable to estimate the impact of this event on our operations, but expect that it will have a material impact on our operations in the coming months.

APPENDIX

NorthStar HEALTHCARE INCOME

CONSOLIDATED BALANCE SHEETS

NorthStar HEALTHCARE INCOME

(In thousands)

	December 31, 2019	December 31, 2018
Assets		
Cash and cash equivalents	$ 41,884	$ 73,811
Restricted cash	16,936	20,697
Operating real estate, net	1,700,218	1,778,914
Investments in unconsolidated ventures	268,894	264,319
Real estate debt investments, net	55,468	58,600
Assets held for sale	1,649	2,183
Receivables, net	13,314	14,436
Deferred costs and intangible assets, net	28,355	36,996
Other assets	14,489	14,460
Total assets	**$ 2,141,207**	**$ 2,264,416**
Liabilities		
Mortgage and other notes payable, net	$ 1,431,922	$ 1,466,349
Due to related party	5,780	5,675
Escrow deposits payable	3,292	4,379
Distribution payable	-	5,400
Accounts payable and accrued expenses	28,135	32,405
Other liabilities	4,574	5,834
Total liabilities	**1,473,703**	**1,520,042**
Equity		
Common stock	1,891	1,885
Additional paid-in capital	1,702,260	1,697,998
Retained earnings (accumulated deficit)	(1,041,297)	(958,924)
Accumulated other comprehensive income (loss)	(470)	(2,284)
Total stockholders' equity	662,384	738,675
Non-controlling interests	5,120	5,699
Total equity	**667,504**	**744,374**
Total liabilities and equity	**$ 2,141,207**	**$ 2,264,416**

CONSOLIDATED STATEMENTS OF OPERATIONS

NorthStar HEALTHCARE INCOME

(In thousands, except per share data)

	Year Ended December 31,		
	2019	2018	2017
Property and other revenues			
Resident fee income	$ 130,135	$ 129,855	$ 127,180
Rental income	161,084	159,481	155,700
Other revenue	1,959	4,935	2,895
Total property and other revenues	293,178	294,271	285,775
Net interest income			
Interest income on debt investments	7,703	7,706	7,696
Interest income on mortgage loans held in a securitized trust	-	5,149	25,955
Interest expense on mortgage obligations issued by a securitization trust	-	(3,824)	(19,510)
Net interest income	7,703	9,031	14,141
Expenses			
Real estate properties - operating expenses	181,214	188,761	163,837
Interest expense	68,896	70,196	61,082
Other expenses related to securitization trust	-	811	3,922
Transaction costs	122	888	9,407
Asset management and other fees - related party	19,789	23,478	41,954
General and administrative expenses	12,761	14,390	13,488
Depreciation and amortization	70,989	107,133	105,459
Impairment loss	27,554	36,277	5,000
Total expenses	381,325	441,934	404,149
Other income (loss)			
Unrealized gain (loss) on mortgage loans held in securitization trust, net	-	-	1,503
Realized gain (loss) on investments and other	6,314	20,243	116
Equity in earnings (losses) of unconsolidated ventures	(3,545)	(33,517)	(35,314)
Income tax benefit (expense)	(75)	(114)	(43)
Net income (loss)	**(77,750)**	**(152,020)**	**(137,971)**
Net (income) loss attributable to non-controlling interests	790	442	200
Net income (loss) attributable to common stockholders	**(76,960)**	**(151,578)**	**(137,771)**
Net income (loss) per share, basic/diluted	$ (0.41)	$ (0.81)	$ (0.74)
Weighted average number of shares outstanding, basic/diluted	189,054,270	187,501,302	186,418,183
Distributions declared per share of common stock	$ 0.03	$ 0.34	$ 0.68

RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION

NorthStar HEALTHCARE INCOME

(In thousands)

	Year Ended December 31,		
	2019	2018	2017
Funds from operations:			
Net income (loss) attributable to NHI	$ (76,960)	$ (151,578)	$ (137,771)
Adjustments:			
Depreciation and amortization	70,989	107,133	105,459
Impairment loss	27,554	35,552	5,000
Depreciation and amortization related to unconsolidated ventures	31,892	32,877	38,804
Depreciation and amortization related to non-controlling interests	(635)	(779)	(620)
Impairment loss on real estated related to non-controlling interests	(585)	(62)	-
Realized (gain) loss from sales of property	(6,104)	(14,148)	-
Realized (gain) loss from sales of property related to non-controlling interests	-	2	-
Realized (gain) loss from sales of property related to unconsolidated ventures	(4,065)	1,446	694
Impairment losses of depreciable real estate held by unconsolidated ventures	2,663	22,568	5,265
Funds from operations attributable to NHI	**$ 44,749**	**$ 33,011**	**$ 16,831**
Modified funds from operations:			
Funds from operations attributable to NHI	$ 44,749	$ 33,011	$ 16,831
Adjustments			
Acquisition fees and transaction costs	122	878	17,057
Straight-line rental (income) loss	(467)	440	(1,673)
Amortization of premiums, discounts and fees on investments and borrowings	4,914	4,903	4,181
Amortization of discounts on healthcare-related securities	-	314	1,531
Adjustments related to unconsolidated ventures	10,075	12,185	34,660
Adjustments related to non-controlling interests	(25)	13	(182)
Realized (gain) loss on investments and other	(679)	(6,094)	(116)
Unrealized gain (loss) on senior housing mortgage loans and debt held in	-	-	(1,503)
Impairment of assets other than real estate	-	725	-
Modified funds from operations attributable to NHI	**$ 58,689**	**$ 46,375**	**$ 70,786**

QUARTERLY FINANCIAL INFORMATION

NorthStar HEALTHCARE INCOME

(In thousands, except per share data) (Unaudited)

	Three Months Ended			
	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Property and other revenues	$ 72,907	$ 72,778	$ 74,972	$ 72,521
Net interest income	1,932	1,946	1,923	1,902
Expenses	106,235	86,571	95,420	93,099
Equity in earnings (losses) of unconsolidated ventures	4,121	(3,037)	(4,405)	(224)
Net income (loss)	(26,924)	(14,697)	(17,460)	(18,669)
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	(26,573)	(14,624)	(17,146)	(18,617)
Net income (loss) per share of common stock, basic/diluted [(1)]	$ (0.13)	$ (0.08)	$ (0.09)	$ (0.10)

See “Footnotes” in the Appendix

SEGMENT INFORMATION

(In thousands)

Year Ended December 31, 2019	Direct Investments: Net Lease	Direct Investments: Operating	Unconsolidated Investments	Debt and Securities	Corporate	Total
Rental and resident fee income	$ 33,423	$ 257,796	$ -	$ -	$ -	$ 291,219
Net interest income on debt and securities	-	-	-	7,703	-	7,703
Other revenue	1	1,237	-	35	686	1,959
Property operating expenses	(11)	(181,203)	-	-	-	(181,214)
Interest expense	(12,434)	(56,360)	-	-	(102)	(68,896)
Transaction costs	-	(122)	-	-	-	(122)
Asset management and other fees - related party	-	-	-	-	(19,789)	(19,789)
General and administrative expenses	(268)	(42)	-	(38)	(12,413)	(12,761)
Depreciation and amortization	(14,329)	(56,660)	-	-	-	(70,989)
Impairment loss	(4,132)	(23,422)	-	-	-	(27,554)
Realized gain (loss) on investments and other	5,872	719	-	-	(277)	6,314
Equity in earnings (losses) of unconsolidated ventures	-	-	(3,545)	-	-	(3,545)
Income tax benefit (expense)	-	(75)	-	-	-	(75)
Net income (loss)	$ 8,122	$ (58,132)	$ (3,545)	$ 7,700	$ (31,895)	$ (77,750)

FOOTNOTES

Page 5 – Our Investments

1) Classification based on predominant services provided, but may include other services.
2) Excludes properties held for sale.
3) Amounts shown in thousands, based on cost for real estate equity investments, which includes purchase price allocations related to net intangibles, deferred costs, other assets, if any, and adjusted for subsequent capital expenditures. Does not include cost of properties held for sale. For real estate debt, based on principal amount. For real estate equity investments, includes cost associated with purchased land parcels that are not included in the count.
4) Watermark Fountains portfolio consists of six wholly-owned net lease properties totaling $288.8 million and nine operating facilities totaling $356.9 million, in which we own a 97.0% interest. One of the operating facilities consists of eight condominium units in which we hold future interests, or the Remainder Interests.
5) Includes institutional pharmacy, therapy businesses and lease purchase buy-out options in connection with the Trilogy investment, which are not subject to property count.
6) Represents our investment in Solstice Senior Living, LLC, or Solstice, the manager of the Winterfell portfolio. Solstice is a joint venture between affiliates of Integral Senior Living, LLC, or ISL, a management company of IL, AL and memory care, or MC, founded in 2000, which owns 80.0%, and us, who owns 20.0%.
7) Our mezzanine loan was originated to a subsidiary of our joint venture with Formation Capital, LLC, or Formation, and Safanad Management Limited, which we refer to as Espresso.

Page 8 – Key Portfolio Metrics

1) 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 limitation, 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 noncash reserves and depreciation. As of December 31, 2019, our leverage was 60.7% of our assets, other than intangibles, before deducting loan loss reserves, other non-cash reserves and depreciation.
2) Represents cash used for repayments of mortgage notes and capital expenditures for operating real estate investments during the year ended December 31, 2019.
3) Represents rooms for AL and IL facilities and beds for MC and skilled nursing facilities, based on predominant type.
4) Includes rental income received from our net lease properties as well as rental income, ancillary service fees and other related revenue earned from IL residents and resident fee income derived from our AL, MC and continuing care retirement communities, which includes resident room and care charges, ancillary fees and other resident service charges.
5) Solstice is a joint venture of which affiliates of ISL own 80%.
6) In May 2019, we sold the two properties that were leased to Peregrine Senior Living.
7) Tenant has failed to remit rental payments during the year ended December 31, 2019. Properties and unit counts exclude one property held for sale.
8) Consists primarily of interest income earned on corporate-level cash accounts.

Page 15 – Quarterly Financial Information

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

IMPORTANT NOTE REGARDING NON-GAAP FINANCIAL MEASURES AND DEFINITIONS

We believe that Funds from Operations (“FFO”) and Modified Funds from Operations (“MFFO”) are additional appropriate measures of the operating performance of a real estate investment trust (“REIT”) and of us in particular. We compute FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts (“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 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.

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

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

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

The IPA’s definition of MFFO excludes from FFO the following items: (i) acquisition fees and expenses; (ii) 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); (iii) amortization of a premium and accretion of a discount on debt investments; (iv) non-recurring impairment of real estate-related investments that meet the specified criteria identified in the rules and regulations of the SEC; (v) realized gains (losses) from the early extinguishment of debt; (vi) 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; (vii) unrealized gains (losses) from fair value adjustments on real estate securities, including commercial mortgage backed securities (“CMBS”) and other securities, interest rate swaps and other derivatives not deemed hedges and foreign exchange holdings; (viii) unrealized gains (losses) from the consolidation from, or deconsolidation to, equity accounting; (ix) adjustments related to contingent purchase price obligations; and (x) adjustments for consolidated and unconsolidated partnerships and joint ventures calculated to reflect MFFO on the same basis as above.

IMPORTANT NOTE REGARDING NON-GAAP FINANCIAL MEASURES AND DEFINITIONS (CONT.)

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

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

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

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

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

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

COMPANY INFORMATION

NorthStar Healthcare Income, Inc., together with its consolidated subsidiaries, 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, memory care, skilled nursing, independent living facilities and continuing care retirement communities, 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, 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 REIT under the Internal Revenue Code of 1986, as amended, 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.

Shareholder Information

Headquarters:
590 Madison Avenue
34th Floor
New York, NY 10022
212.547.2600

Company Website:
www.northstarhealthcarereit.com/