



CNL Healthcare Properties

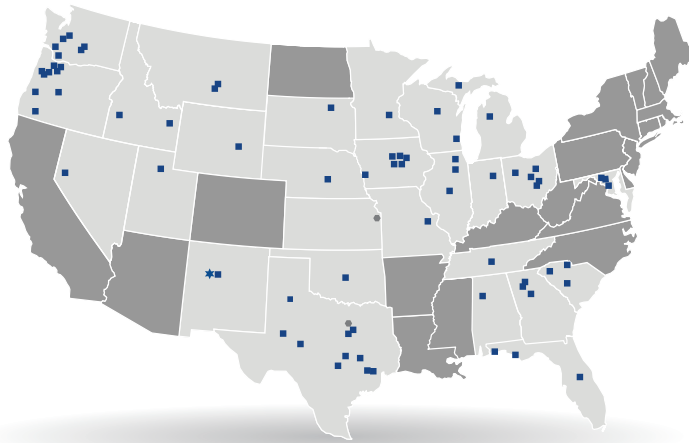


Built on Experience

2019 Annual Report



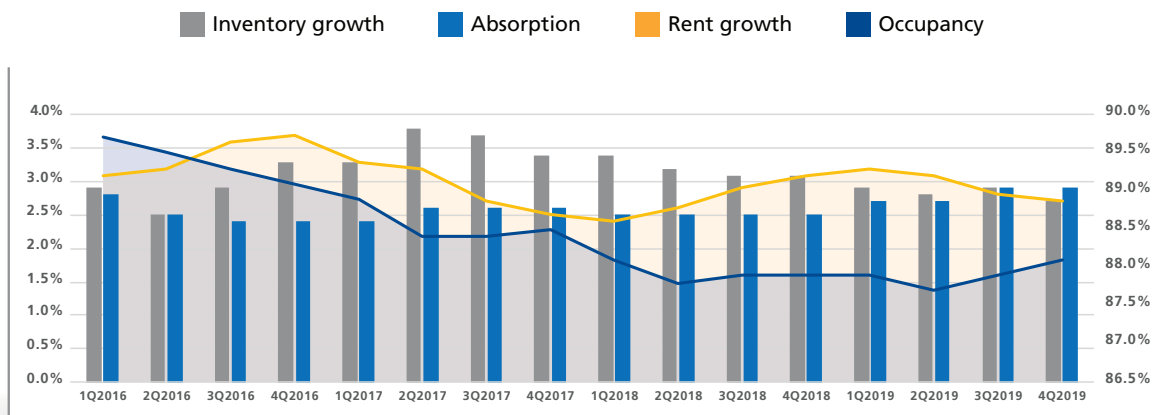
Portfolio Diversification



74 INVESTMENTS
As of March 25, 2020

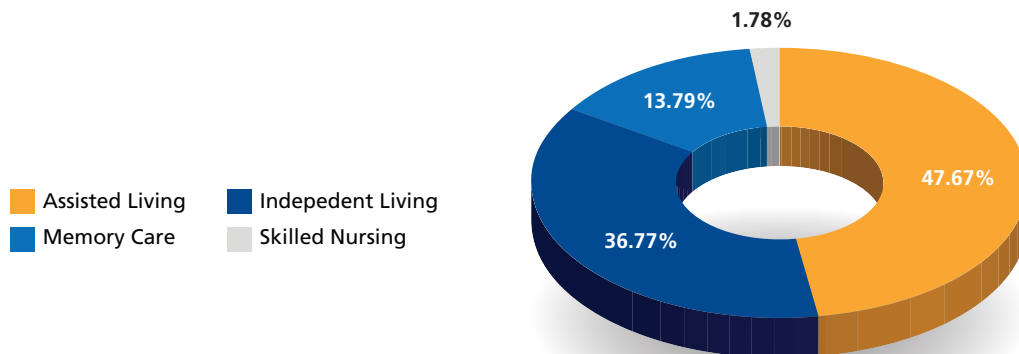
- Seniors Housing
- Acute Care
- ★ Vacant Land

Improving Seniors Housing Fundamentals



2020 National Investment Center for Seniors Housing & Care, Inc. (NIC). NIC Map® Data Service. Data believed to be accurate but not guaranteed; subject to future revision.

Seniors Housing Portfolio Composition By Units



To Our Shareholders

In 2019, CNL Healthcare Properties took meaningful, tangible steps to return capital to our shareholders through our pursuit of strategic liquidity alternatives. As of this letter, our efforts have delivered to shareholders a total of \$2.00 per share through a special distribution.

In the first half of 2019, we successfully completed the sale of 59 healthcare assets, including a 55-medical office building portfolio sold to Welltower Inc. (NYSE: WELL), and four post-acute care properties sold to Global Medical REIT Inc. (NYSE: GMRE) and received aggregate net sales proceeds of \$1.32 billion. These transactions were at prices that represented meaningful premiums to our investment basis. Shortly after completing those sales, our board of directors unanimously approved a special distribution of \$2.00 per share to our shareholders.

At the end of last year, we completed the sale of two non-seniors housing healthcare assets in Texas and Colorado and generated net sales proceeds of \$39 million, a portion of which was used to pay down our revolving credit facility and for other corporate purposes.

More recently, in February and March 2020, we sold seven of our remaining nine post-acute care facilities in Arkansas and Louisiana and generated net sales proceeds of \$82.8 million. These and other dispositions last year helped streamline our holdings to a portfolio of primarily private-pay seniors housing communities.

Today, our portfolio is geographically dispersed with properties in 27 states, and is comprised of 71 newer, private-pay seniors housing communities, one vacant land parcel, and two specialty hospitals.

Our two specialty hospitals remain held for sale and during 2020, subject to a return of conducive market conditions

given the current disruptions and uncertainty from COVID-19, we intend to execute on our plan to sell these properties. This will permit us to focus our attention exclusively on our seniors housing portfolio, which performed well in 2019.

Summary of Financial and Operational Performance

As of March 25, 2020, CNL Healthcare Properties' portfolio of 74 real estate assets and properties held for sale represented an investment value of approximately \$1.81 billion, including our joint venture interests. Together with results from the properties held for sale that were not classified as discontinued operations, for the year ended Dec. 31, 2019, we earned \$33.5 million in rental income and related revenues and \$288.3 million in resident and service fees from our managed seniors housing properties from continuing operations, compared to \$35 million and \$276.6 million, respectively, for the year ended Dec. 31, 2018. For our small group of leased assets, the average remaining lease term is 5.3 years based on annualized base rent expirations.

In 2019 and as part of our proactive balance sheet management initiatives, we refinanced our corporate credit facilities from \$720 million to \$515 million. We continued to be thoughtful and measured with debt levels and managing our floating interest rate exposure. At year's end, our total debt-to-assets ratio was a conservative 35.5 percent, based on in-place investment value, and our unhedged floating interest rate exposure was also very low at 4.7 percent of total outstanding debt.

Funds from Operations (FFO) per share was \$0.37 in 2019, compared with \$0.42 for 2018. We reported Modified Funds from Operations (MFFO) per share in 2019 of \$0.40, compared with \$0.41 in 2018. FFO and MFFO are non-GAAP



Park Place Senior Living at WingHaven
O'Fallon, Missouri

“For the year ended Dec. 31, 2019, we declared and paid cash distributions of \$394.9 million, which included the \$2.00 per share special distribution funded in May 2019.”



(generally accepted accounting principles) financial performance measures used in the REIT industry and are in addition to and should not be considered or used as a substitute for or superior to, measures of financial performance prepared in accordance with GAAP, such as cash flow from operating activities. We believe that presentation of these historical non-GAAP financial measures provides useful supplemental information and facilitates additional analysis by shareholders. A reconciliation of net income (loss) to FFO and MFFO can be found in the Management Discussion and Analysis section of our 10-K accompanying this annual report.

As has been our practice, we conducted our seventh year-end estimated net asset valuation (NAV) exercise based on our portfolio and balance sheet, as of Dec. 31, 2019. To conduct this valuation, we again engaged Robert A. Stanger & Co. Inc. (Stanger), an independent third-party firm, to provide analyses and appraisals to assist our board of directors and its valuation committee in determining an updated estimated NAV. Other than the adjustment for estimated property transaction costs, the process for determining the NAV followed the company's internal valuation policy and certain methodologies prescribed by the Institute for Portfolio Alternatives (IPA).

In March 2020, our board of directors announced an estimated NAV per share of \$7.81 as of Dec. 31, 2019, for our common stock. Our most recent NAV reflects a reduction in real estate assets given our various property sales and a lower fair market value of debt resulting from reduced borrowings and principal amortization. The appraised value of our 71 senior housing communities declined by approximately 2.0% when compared to the appraised value in the company's estimated NAV as of Dec. 31, 2018. This year-over-year decline was driven by capitalization rate expansion and slightly lower estimates of future earnings growth, which serve to reflect the expected moderation of future occupancy growth. As with last year, the estimated

NAV was also affected by pro forma transaction costs as we continue to reflect our estimated NAV based on a hypothetical orderly sale of the company's assets. Management and the board believe that including a deduction for such transaction costs is prudent as we have progressed further in our assessment and execution of our strategic liquidity alternatives.

While our estimated valuation process is quite detailed and thorough, please keep in mind that the estimated NAV per share is as of a specific date and is not necessarily indicative of the value that shareholders would ultimately realize upon the conclusion of our liquidity process. In addition, it is important to note that our year-end NAV does not attempt to take into consideration any near- or long-term effect on our holdings or the U.S. economy from the COVID-19 global pandemic. Going forward, we expect to continue the annual valuation of our assets and public disclosure of our estimated NAV.

Following the large sale of our medical assets in the second quarter of 2019, the declaration of the special cash distribution of \$2.00 per share of common stock and organic reductions in our earning asset base and levels of cash generation, our board of directors approved an adjustment to our distribution policy and declared a new quarterly distribution rate of \$0.0512 per share. The board determined that the new rate was appropriate, given the smaller size of our portfolio, our asset mix, our projected earnings and expected organic cash flow coverage of regular distributions.

For the year ended Dec. 31, 2019, we declared and paid cash distributions of \$394.9 million, which included the \$2.00 per share special distribution funded in May 2019. As we close on additional sales of our properties and regularly assess company liquidity and balance sheet strength, our board of directors will continue to regularly evaluate and adjust the distribution rate as necessary, based on forward-looking business expectations.



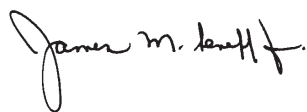
Tranquility at Fredericktowne
Frederick, Maryland

“We are unquestionably focused and fully committed to continuing to strategically manage the business in and through this unprecedented COVID-19 environment.”



Looking Ahead

The COVID-19 pandemic has created tremendous turmoil in global financial markets and as we have seen, has quickly and negatively impacted many businesses. The near- and long-term effects on the overall U.S. economy and many industry sectors and businesses remain to be seen. This is particularly true for the healthcare and seniors housing sectors. As a result, maintenance of our current and forward-looking liquidity and a strong balance sheet has become even more paramount for us as we move through 2020. Today, we are pleased to report that the company is well-capitalized to help manage through the new and rapidly changing economic and operating landscape. We are committed to remaining even more vigilant during these uncertain times,



James M. Seneff
Chairman of the Board

relying on the expertise of our management and staff as well as the experience of our sponsor, which has weathered numerous economic crises and market sector challenges since its formation in 1973.

We as a management team and board of directors are unquestionably focused and fully committed to continuing to strategically manage the business in and through this unprecedented environment. When it becomes appropriate to do so, we expect to resume our thoughtful evaluation and execution of possible strategic alternatives to provide further and ultimate liquidity to shareholders.

Thank you for the opportunity to be stewards of your investment in CNL Healthcare Properties.



Stephen H. Mauldin
CEO and President

HarborChase of Plainfield
Plainfield, Illinois



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

FORM 10-K

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

For the fiscal year ended December 31, 2019

OR

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

For the transition period from _____ to _____

Commission file number: 000-54685

CNL Healthcare Properties, Inc.

(Exact name of registrant as specified in its charter)

<p style="text-align:center">Maryland (State or other jurisdiction of incorporation or organization) CNL Center at City Commons 450 South Orange Avenue Orlando, Florida (Address of principal executive offices)</p>	<p>27-2876363 (I.R.S. Employer Identification No.) 32801 (Zip Code)</p>
<p>Registrant's telephone number, including area code (407) 650-1000</p>	

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u> None	<u>Name of each exchange on which registered</u> Not applicable
------------------------------------	--------------------------------------------------------------------

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

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

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

There is currently no established public market for the registrant’s shares of common stock. Based on the Company’s \$7.99 net asset value (“NAV”) per share as of June 30, 2019 (the last business day of the registrant’s most recently completed second fiscal quarter), the aggregate market value of the stock held by non-affiliates of the registrant on such date was approximately \$1.4 billion.

The number of shares of common stock of the registrant outstanding as of March 25, 2020 was 173,960,540.

DOCUMENTS INCORPORATED BY REFERENCE

None

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PART I

STATEMENT REGARDING FORWARD LOOKING INFORMATION

Statements contained under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (“Annual Report”) that are not statements of historical or current fact may constitute “forward-looking statements” within the meaning of the Federal Private Securities Litigation Reform Act of 1995. The Company intends that such forward-looking statements be subject to the safe harbor created by Section 21E of the Securities Exchange Act of 1934, as amended (“Exchange Act”). Forward-looking statements are statements that do not relate strictly to historical or current facts but reflect management’s current understandings, intentions, beliefs, plans, expectations, assumptions and/or predictions regarding the future of the Company’s business and performance, the economy, and other future conditions and forecasts of future events and circumstances. Forward-looking statements are typically identified by words such as “believes,” “expects,” “anticipates,” “intends,” “estimates,” “plans,” “continues,” “pro forma,” “may,” “will,” “seeks,” “should,” “could” and words and terms of similar substance in connection with discussions of future operating or financial performance, business strategy and portfolios, projected growth prospects, cash flows, costs and financing needs, legal proceedings, amount and timing of anticipated future distributions, estimates of per share NAV of the Company’s common stock, and/or other matters. The Company’s forward-looking statements are not guarantees of future performance. While the Company’s management believes its forward-looking statements are reasonable, such statements are inherently susceptible to uncertainty and changes in circumstances. As with any projection or forecast, forward-looking statements are necessarily dependent on assumptions, data and/or methods that may be incorrect or imprecise, and may not be realized. The Company’s forward-looking statements are based on management’s current expectations and a variety of risks, uncertainties and other factors, many of which are beyond the Company’s ability to control or accurately predict. Although the Company believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, the Company’s actual results could differ materially from those set forth in the forward-looking statements due to a variety of risks, uncertainties and other factors. Given these uncertainties, the Company cautions you not to place undue reliance on such statements.

For further information regarding risks and uncertainties associated with the Company’s business and important factors that could cause the Company’s actual results to vary materially from those expressed or implied in its forward-looking statements, please refer to the factors listed and described under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the “Risk Factors” sections of the Company’s documents filed from time to time with the U.S. Securities and Exchange Commission (“SEC” or “the Commission”), including, but not limited to, this Annual Report and the Company’s quarterly reports on Form 10-Q, copies of which may be obtained from the Company’s website at www.cnlhealthcareproperties.com.

All written and oral forward-looking statements attributable to the Company or persons acting on its behalf are qualified in their entirety by this cautionary note. Forward-looking statements speak only as of the date on which they are made, and the Company undertakes no obligation to, and expressly disclaims any obligation to, publicly release the results of any revisions to its forward-looking statements to reflect new information, changed assumptions, the occurrence of unanticipated subsequent events or circumstances, or changes to future operating results over time, except as otherwise required by law.

Item 1. BUSINESS

General

CNL Healthcare Properties, Inc. is a Maryland corporation that incorporated on June 8, 2010. We elected to be taxed as a REIT for U.S. federal income tax purposes beginning with the year ended December 31, 2012 and our intention is to be organized and operate in a manner that allows us to remain qualified as a REIT for federal income tax purposes. The terms “us,” “we,” “our,” “Company” and “CNL Healthcare Properties” include CNL Healthcare Properties, Inc. and each of its subsidiaries.

Substantially all of our assets are held by, and all operations are conducted, either directly or indirectly, through: (1) CHP Partners LP (“Operating Partnership”) in which we are the sole limited partner and our wholly owned subsidiary, CHP GP, LLC, is the sole general partner; (2) a wholly owned taxable REIT subsidiary (“TRS”), CHP TRS Holding, Inc.; (3) property owner subsidiaries and lender subsidiaries, which are single purpose entities; and (4) investments in joint ventures.

On September 30, 2015, we completed our public offerings (“Offerings”) and received aggregate subscription proceeds of approximately \$1.7 billion. In October 2015, we deregistered the unsold shares of our common stock under our previous registration statement on Form S-11, except for 20 million shares that we registered on Form S-3 under the Securities Exchange Act of 1933 with the SEC for the sale of additional shares of common stock through our distribution reinvestment plan (“Reinvestment Plan”). As part of moving forward with the consideration of Possible Strategic Alternatives, as described below under “Possible Strategic Alternatives,” effective July 11, 2018, we suspended our Reinvestment Plan and, effective with the suspension of our Reinvestment Plan, stockholders who were participants in our Reinvestment Plan now receive cash distributions instead of additional shares of our common stock.

Our offices are located at 450 South Orange Avenue within the CNL Center at City Commons in Orlando, Florida, 32801, and our telephone number is (407) 650-1000.

Advisor and Property Manager

We are externally managed and advised by CNL Healthcare Corp. (“Advisor”) and through June 2018, were also managed by CNL Healthcare Manager Corp. (the “Property Manager”), each of which is an affiliate of CNL Financial Group, LLC (“Sponsor”). The Sponsor is an affiliate of CNL Financial Group, Inc. (“CNL”). Our Advisor has responsibility for our day-to-day operations, serving as our consultant in connection with policy decisions to be made by our board of directors, and for identifying, recommending and executing on Possible Strategic Alternatives and dispositions on our behalf pursuant to an advisory agreement. In May 2019, we extended the advisory agreement with our Advisor through June 2020. For additional information on our Advisor, its affiliates or other related parties, as well as the fees and reimbursements we pay, see Item 8. “Financial Statements and Supplementary Data” – Note 11. “Related Party Arrangements.”

Possible Strategic Alternatives

In 2017, we began evaluating possible strategic alternatives to provide liquidity to the Company’s stockholders. In April 2018, our board of directors formed a special committee consisting solely of our independent directors (“Special Committee”) to consider possible strategic alternatives, including, but not limited to (i) the listing of the Company’s or one of its subsidiaries’ common stock on a national securities exchange, (ii) an orderly disposition of the Company’s assets or one or more of the Company’s asset classes and the distribution of the net sale proceeds thereof to the stockholders of the Company and (iii) a potential business combination or other transaction with a third party or parties that provides the stockholders of the Company with cash and/or securities of a publicly traded company (collectively, among other options, “Possible Strategic Alternatives”). During 2018, the Special Committee engaged HFF Securities L.P. and KeyBanc Capital Markets Inc. to act as financial advisors in connection with exploring our Possible Strategic Alternatives.

In connection with our consideration of the Possible Strategic Alternatives, our board of directors suspended both our Reinvestment Plan and our stock redemption plan (“Redemption Plan”) effective July 11, 2018. As part of executing on Possible Strategic Alternatives, in September 2018, our board of directors committed to a plan to sell the MOB/Healthcare Portfolio (63 properties consisting of 53 MOBs, five post-acute care facilities and five acute care hospitals across the US). In December 2018, we also committed to a plan to sell our Welbrook Senior Living Grand Junction property, our skilled nursing facility in Grand Junction, Colorado. We had also previously committed to a plan to sell our six skilled nursing facilities in Arkansas. As of December 31, 2018, we had a total of 70 properties classified as held for sale and had classified the operations of the 63 properties in the MOB/Healthcare Portfolio as discontinued operations because the sale of these properties represented a strategic shift in our operations.

In April 2019, we completed the sale of four post-acute care properties (“IRF Sale”) to an unrelated third party. In May 2019, we completed the sale of 55 medical office buildings and related properties (“MOB Sale”), which were part of the MOB/Healthcare Portfolio, to a subsidiary of Welltower Inc. (NYSE:WELL) and received approximately \$1,321.2 million in net sales proceeds. Both the IRF Sale and the MOB Sale were in furtherance of our efforts to sell the MOB/Healthcare Portfolio. We used the net sales proceeds to: (1) repay indebtedness secured by or allocated to the 59 properties comprising the MOB Sale and the IRF Sale; (2) strategically rebalance other corporate borrowings; (3) make a special cash distribution of \$347.9 million (\$2.00 per share) to our stockholders and (4) for other corporate purposes. Additionally, as a result of the IRF Sale and the MOB Sale, our board of directors adjusted our regular quarterly cash distribution to an amount equal to \$0.0512 per share, compared to \$0.1164 per share that had been in effect since the third quarter of 2017. The adjustment to our regular cash distributions was the result of a reduction in our remaining earnings base and operating cash flows given the associated impact of the sale of real estate. In June 2019, subsequent to the consummation of the MOB Sale, we terminated our engagement of HFF Securities L.P., one of the financial advisors to our Special Committee in connection with exploring Possible Strategic Alternatives, subject to a 12-month tail of certain fees and obligations under the terminated engagement letter. During the last half of 2019, we sold one acute care hospital from the MOB/Healthcare Portfolio plus the Welbrook Senior Living Grand Junction property to unrelated third parties and received net sales proceeds of \$39.0 million. As of December 31, 2019, we had nine properties classified as held for sale.

In December 2019, we entered into a purchase and sale agreement for the sale of our six skilled nursing facilities in Arkansas (the “Perennial Communities Sale Agreement”) with an unrelated third party for a gross sales price of \$55.0 million, subject to certain pro-rations and other adjustments, as described in the Perennial Communities Sale Agreement. The anticipated net sales proceeds from the Perennial Communities were expected to exceed the net carrying values of these properties. In addition, in December 2019, we entered into a purchase and sale agreement with an unrelated third party for our acute care hospital in New Orleans (the “New Orleans Sale Agreement”) for a gross sales price of \$28.65 million, subject to certain pro-rations and other adjustments as described in the New Orleans Sale Agreement. We recorded an impairment provision of \$0.1 million related to the property in New Orleans to write-off the associated assets in excess of the estimated net sales proceeds, as it was determined that the carrying value of this property would not be recoverable. In February and March 2020, we sold the property related to the New Orleans Sale Agreement and the six properties related to the Perennial Communities Sale Agreement, respectively. During 2020, we intend to continue executing on our plan to sell the remaining two properties that we had classified as held for sale as of December 31, 2019.

Investment Objectives and Strategy

Our primary investment objectives were to invest in a diversified portfolio of assets that would allow us to:

- provide stockholders with attractive and stable cash distributions;
- preserve, protect and return stockholders’ invested capital; and
- explore liquidity opportunities in the future, such as the sale of either the Company or our assets, a potential merger, or the listing of our common shares on a national securities exchange.

There can be no assurance that we will be able to achieve our investment objectives.

The types of seniors housing properties that we acquired included independent and assisted living facilities, continuing care retirement communities and Alzheimer's / memory care facilities. The types of medical office facilities that we acquired included medical office buildings, specialty medical and diagnostic service facilities, surgery centers, outpatient rehabilitation facilities, and other facilities designed for clinical services. The types of post-acute care facilities that we acquired include skilled nursing facilities and inpatient rehabilitative facilities. The types of acute care facilities that we acquired include specialty surgical hospitals. We view, manage and evaluate our portfolio homogeneously as one collection of healthcare assets with a common goal of maximizing revenues and property income regardless of the asset class or asset type. As part of executing on Possible Strategic Alternatives during 2018, we classified 70 properties as held for sale, consisting of 63 properties from our MOB/Healthcare Portfolio (consisting of all of our medical office facilities, our post-acute care facilities and our acute care facilities) and seven skilled nursing facilities. As of March 25, 2020, we had sold 68 of the 70 properties we had classified as held for sale.

We have primarily leased our seniors housing properties to wholly owned TRS entities and engaged independent third-party managers under management agreements to operate the properties as permitted under the REIT Investment Diversification and Empowerment Act of 2007 ("RIDEA"). We have also leased certain of our seniors housing properties to third-party tenants under triple-net or similar lease structures, where the tenant bears all or substantially all of the costs (including cost increases, for real estate taxes, utilities, insurance and ordinary repairs). Medical office, post-acute care and acute care properties were leased through the date of sale, and for the properties still in our portfolio, have been leased on a triple-net, net or modified gross basis to third-party tenants. In addition, most of our investments are wholly owned, although, to a lesser extent, we invested through partnerships with other entities where we believed was appropriate and beneficial. We have and continue to invest in properties that have not reached full stabilization.

Dispositions

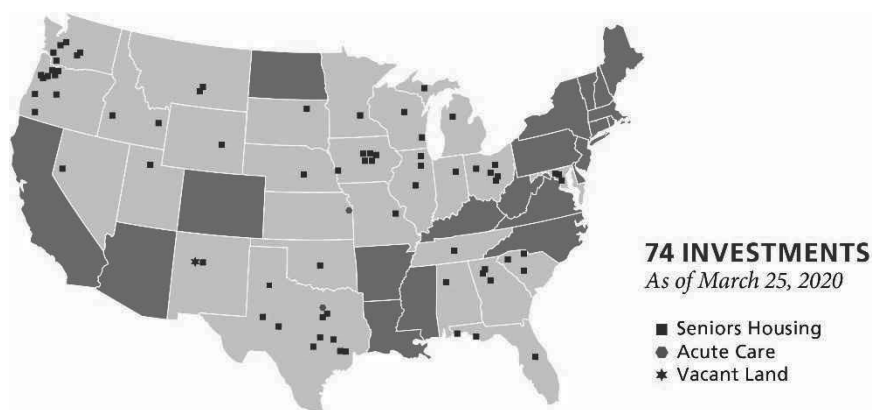
The determination of when a particular investment should be sold or otherwise disposed of may be made after considering all relevant factors, including overall strategic alternatives, tax considerations as well as prevailing and projected economic and market conditions (including whether the value of the property or other investment is anticipated to decline substantially). The net proceeds, after payment of debt, received from any disposition may be retained for corporate purposes or distributed to stockholders. Refer to "Possible Strategic Alternatives" above for additional information on dispositions during 2019 and the first three months of 2020.

Portfolio Overview

As part of executing under our Possible Strategic Alternatives, during 2019 we completed the sale of 61 of the 70 properties that we had previously classified as held for sale and as of December 31, 2019 had entered into purchase and sale agreements for seven of nine remaining properties classified as held for sale. As of December 31, 2019, including the nine remaining properties classified as held for sale, our healthcare investment portfolio consisted of interests in 81 properties, comprising 72 seniors housing properties, seven post-acute care facilities and two acute care hospitals. Of our properties held as of December 31, 2019, five of our 72 seniors housing properties were owned through an unconsolidated joint venture and one was comprised of unimproved land.

Through March 25, 2020, we sold the seven properties that were under contract and classified as held for sale as of December 31, 2019. During 2020, we intend to continue executing on our plan to sell the two remaining properties classified as held for sale.

We believe demographic trends and compelling supply and demand indicators presented a strong case for an investment focus on healthcare real estate and real estate-related assets. We believe that the healthcare sector will continue to provide attractive opportunities as compared to other asset sectors over the long-term. Our healthcare investment portfolio is geographically diversified with properties in 27 states. The map below shows our current property allocations across geographic regions as of March 25, 2020:



The following table summarizes our remaining healthcare portfolio (including the nine properties classified as held for sale), by asset class and investment structure as of March 25, 2020:

<u>Type of Investment</u>	<u>Number of Investments</u>	<u>Amount of Investments (in millions)</u>	<u>Percentage of Total Investments</u>
<i>Consolidated investments:</i>			
Seniors housing leased ⁽¹⁾	15	\$ 311.0	17.2%
Seniors housing managed ⁽²⁾	51	1,427.8	78.9%
Seniors housing unimproved land	1	1.1	0.1%
Acute care leased ⁽¹⁾⁽³⁾	2	39.5	2.1%
<i>Unconsolidated investments:</i>			
Seniors housing managed ⁽⁴⁾	5	31.1	1.7%
	<u>74</u>	<u>\$ 1,810.5</u>	<u>100%</u>

FOOTNOTES:

- (1) Properties that are leased to third-party tenants for which we report rental income and related revenues.
- (2) Properties that are leased to TRS entities and managed pursuant to third-party management contracts (i.e. RIDEA structure) where we report resident fees and services, and the corresponding property operating expenses.
- (3) Properties that comprise the nine remaining properties classified as held for sale as of December 31, 2019. The seven post-acute care leased properties were sold through March 25, 2020.
- (4) Properties that are owned through an unconsolidated joint venture and are leased to TRS entities and managed pursuant to third-party management contracts (i.e. RIDEA structure). The joint venture is accounted for using the equity method.

Portfolio Evaluation

While we are not directly impacted by the performance of the underlying properties leased to third-party tenants, we believe that the financial and operational performance of our tenants provides an indication about the stability of our tenants and their ability to pay rent. To the extent that our tenants, managers or joint venture partners experience operating difficulties and become unable to generate sufficient cash to make rent payments to us, there could be a material adverse impact on our consolidated results of operations, liquidity and/or financial condition. Our tenants and managers are generally contractually required to provide this information to us in accordance with their respective lease, management and/or joint venture agreements. Therefore, in order to mitigate the aforementioned risk, we monitor our investments through a variety of methods determined by the type of property.

We monitor the performance of our tenants and third-party operators to stay abreast of any material changes in the operations of the underlying properties by (1) reviewing the current, historical and prospective operating margins (measured by a tenant’s earnings before interest, taxes, depreciation, amortization and facility rent), (2) monitoring

trends in the source of our tenants' revenue, including the relative mix of public payors (including Medicare, Medicaid, etc.) and private payors (including commercial insurance and private pay patients), (3) evaluating the effect of evolving healthcare legislation and other regulations on our tenants' profitability and liquidity, and (4) reviewing the competition and demographics of the local and surrounding areas in which the tenants operate.

We monitor the credit of our tenants to stay abreast of any material changes in quality. We monitor tenant credit quality by (1) reviewing financial statements that are publicly available or that are required to be delivered to us under the applicable lease, (2) direct interaction with onsite property managers, (3) monitoring news and rating agency reports regarding our tenants (or their parent companies) and their underlying businesses, (4) monitoring the timeliness of rent collections and (5) monitoring lease coverage.

When evaluating the performance of our healthcare portfolio within the seniors housing asset classes, management reviews occupancy levels and monthly revenue per occupied unit, which we define as total revenue divided by average number of occupied units or beds and is considered a performance metric within these asset classes. Similarly, when evaluating the performance of our third-party operators, management reviews monthly financial statements, property-level operating performance versus budgeted expectations, conducts periodic operational review calls with operators and conducts periodic property inspections or site visits. All of the aforementioned operating and statistical metrics assist us in determining the ability of our properties or operators to achieve market rental rates, to assess the overall performance of our diversified healthcare portfolio, and to review compliance with leases, debt, licensure, real estate taxes, and other collateral.

Significant Tenants and Operators

Our real estate portfolio is operated by a mix of national or regional operators and the following represent the significant tenants and operators that lease or manage 5% or more of our rentable space as of December 31, 2019, excluding the three remaining properties comprising our MOB/Healthcare Portfolio, which were classified as discontinued operations:

Tenants	Number of Properties	Rentable Square Feet (in thousands)	Percentage of Rentable Square Feet	Lease Expiration Year
TSM Management, LLC	13	1,261	66.8%	2022-2025
Wellmore, LLC	2	366	19.4%	2026-2027
Community Compassion ⁽¹⁾	6	261	13.8%	2023
	21	1,888	100.0%	

Operators	Number of Properties	Rentable Square Feet (in thousands)	Percentage of Rentable Square Feet	Operator Expiration Year
Integrated Senior Living, LLC	7	1,948	31.1%	2021-2024
Prestige Senior Living, LLC	13	895	14.3%	2023-2024
Morningstar Senior Management, LLC	4	834	13.3%	2023
SLH Austin Manager, LLC	3	431	6.9%	2020
Parc Communities, LLC	2	385	6.2%	2023
Harborchase Retirement, LLC	4	380	6.1%	2023-2029
Other operators ⁽²⁾	18	1,382	22.1%	2020-2027
	51	6,255	100.0%	

FOOTNOTE:

⁽¹⁾ Represents tenant(s) at properties that were classified as held for sale as of December 31, 2019.

⁽²⁾ Comprised of various operators each of which comprise less than 5% of our consolidated rentable square footage.

Tenant Lease Expirations

As of December 31, 2019, excluding the remaining three properties classified as discontinued operations, we owned 21 properties consisting of 15 seniors housing properties and the six post-acute care properties, which are classified as held for sale, that have been leased to tenants under triple-net operating leases. During the year ended December 31, 2019, our rental income from continuing operations represented approximately 10.4% of our total revenues from continuing operations.

Under the terms of our triple-net lease agreements, each tenant is responsible for payment of property taxes, general liability insurance, utilities, repairs and maintenance, including structural and roof expenses. Each tenant is expected to pay real estate taxes directly to the taxing authorities. However, if the tenant does not pay the real estate taxes, we would be liable.

Our asset management team collaborates with existing tenants to understand their current and anticipated space needs in advance of their lease term renewal date. As of December 31, 2019, none of the leases on our properties from which we derive rental income from continuing operations was scheduled to expire before 2022. Therefore, we do not expect lease turnover to have a significant impact on our cash flows from operations in the near term. We work with and begin lease-related negotiations well in advance of the lease expirations or renewal period options in order for us to maintain a balanced lease rollover schedule and high occupancy levels, as well as to enhance the value of our properties through extended lease terms. Lease extensions are likely to create an obligation to pay lease commissions, lease incentives and/or tenant improvements and may also provide our tenants with some periods of reduced and/or “free rent.” Certain amendments or modifications to the terms of existing leases could require lender approval.

In March 2019, we entered into lease amendments for each of the five properties comprising our Primrose II Communities which, among other things, extended the respective lease terms from the initial expiration dates in December 2022 to amended expiration dates in December 2025.

The following table lists, on an aggregate basis, scheduled expirations for the next 10 years ending December 31st and thereafter on our consolidated healthcare investment portfolio, excluding the remaining three properties classified as discontinued operations, and assuming that none of the tenants exercise any of their renewal options (in thousands, except for number of tenants and percentages) as of December 31, 2019:

Year of Expiration ⁽¹⁾	Number of Tenants	Expiring Leased Square Feet	Expiring Annualized Base Rents ⁽²⁾	Percentage of Expiring Annual Base Rents
2020	—	—	—	—
2021	—	—	—	—
2022	5	518	8,184	24.6%
2023	6	261	6,315	18.9%
2024	—	—	—	—
2025	8	743	11,478	34.4%
2026	1	137	3,296	9.9%
2027	1	229	4,058	12.2%
2028	—	—	—	—
2029	—	—	—	—
Thereafter	—	—	—	—
Total	21	1,888	\$ 33,331	100.0%

Weighted Average Remaining Lease Term: ⁽³⁾ 5.0 years

FOOTNOTES:

- (1) Represents current lease expiration and does not take into consideration lease renewals available under existing leases at the option of the tenants.
- (2) Represents the current base rent, excluding tenant reimbursements and the impact of future rent bumps included in leases, multiplied by 12 and included in the year of expiration.
- (3) Weighted average remaining lease term is the average remaining term weighted by annualized current base rents.

Share Price Valuation

We have adopted a valuation policy designed to follow recommendations of the Investment Program Association (“IPA”), an industry trade group, in the IPA Practice Guideline 2013-01, Valuations of Publicly Registered Non-Listed REITs, which was adopted by the IPA effective May 1, 2013 (“IPA Valuation Guideline”). The purpose of our valuation policy is to establish guidelines to be followed in determining the NAV per share of our common stock for regulatory and investor reporting and on-going evaluation of investment performance. NAV means the fair value of real estate, real estate-related investments and all other assets less the fair value of total liabilities. Our NAV will be determined based on the fair value of our assets less liabilities under market conditions existing as of the time of valuation and assuming the allocation of the resulting net value among our stockholders after any adjustments for incentive, preferred or special interests, if applicable.

In accordance with our valuation policy and as recommended by the IPA Valuation Guideline, we expect to produce an estimated NAV per share at least annually as of December 31 and disclose such amount as soon as possible after year-end. The audit committee of our board of directors, comprised of our independent directors (“Valuation Committee”), oversees our valuation process and engages one or more third-party valuation advisors to assist in the process of determining the estimated NAV per share of our common stock.

To assist our board of directors in its determination of the estimated NAV per share of our common stock, our board of directors engaged an independent third-party valuation firm, Robert A. Stanger & Co., Inc. (“Stanger”), to provide property-level and aggregate valuation analyses of the Company and a range for the NAV per share of our common stock and to consider other information provided by our Advisor.

For a detailed discussion of the determination of the estimated NAV per share of our common stock, including our valuation process and methodology, see Item 5. “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities – Market Information.”

Distributions

In order to qualify as a REIT, we are required to make distributions, other than capital gain distributions, to our stockholders each year in the amount of at least 90% of our taxable income. We may make distributions in the form of cash or other property, including distributions of our own securities. While we generally expect to pay distributions from cash flows provided by operating activities, we have and may cover periodic shortfalls between distributions paid and cash flows provided by operating activities from other sources; such as from cash flows provided by financing activities (“Other Sources”), a component of which could include borrowings, whether collateralized by our properties or unsecured, or net sales proceeds from the sale of real estate. We have not established any limit on the extent to which we may use borrowings to pay distributions, and there is no assurance we will be able to sustain distributions at any level. Refer to Item 5. “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities – Distributions” for additional information regarding our distributions.

Borrowings

We have borrowed funds to acquire properties, make loans and other permitted investments and to pay certain related fees. We may borrow money, whether collateralized by our assets or unsecured, to pay distributions to stockholders, for working capital and/or for other corporate purposes. We are subject to certain customary covenants and limitations in connection with our borrowings. The aggregate amount of long-term financing is not expected to exceed 60% of the carrying value of our total assets on an annual basis.

There is no limitation on the amount we can borrow for the purchase of any individual property or other investment. Our board of directors has adopted a policy to generally limit our aggregate borrowings to approximately 75% of the aggregate value of our assets, unless substantial justification exists that borrowing a greater amount is in our best interests. Our intent has been to target our aggregate borrowings ranging from 40% to 60% of the aggregate value of our assets now that we own a seasoned and stable asset portfolio. As of December 31, 2019 and 2018, we had an aggregate debt leverage ratio of approximately 35.5% and 54.9%, respectively, of the aggregate carrying value of our assets.

Competition

Our tenants and operators compete with other properties that provide comparable services in their local markets. Tenants and operators compete for patients, tenants and residents based on a variety of factors including, but not limited to: quality of care, reputation, location, service offerings, physician groups, staff and price. We also face competition from other properties for tenants or residents, such as physicians and other health care providers that provide comparable facilities and services.

Employees

We are externally managed and as such we do not have any employees.

Financial Information about Industry Segments

We have determined that we operate in one business segment, real estate ownership, which consists of owning, managing, leasing, acquiring, developing, investing in, and as conditions warrant, disposing of real estate assets. We internally evaluate all of our real estate assets as one operating segment and, accordingly, we do not report segment information.

Taxation

The following summary of the taxation of the Company and the material federal income tax consequences to the holders of our equity securities is for general information only and is not tax advice. This summary does not address all aspects of taxation that may be relevant to certain types of holders of securities (including, but not limited to, insurance companies, tax-exempt entities, financial institutions or broker-dealers, persons holding our securities as part of a hedging, integrated conversion, or constructive sale transaction or a straddle, persons subject to special tax accounting rules under Section 451(b) of the Code (as hereinafter defined), traders in securities that use a mark-to-market method of accounting for their securities, investors in pass-through entities and foreign corporations and persons who are not citizens or residents of the U.S.).

This summary does not discuss all of the aspects of U.S. federal income taxation that may be relevant in light of a particular investment or other circumstances. In addition, this summary does not discuss any state or local income taxation or foreign income taxation or other tax consequences. This summary is based on current U.S. federal income tax law. Subsequent developments in U.S. federal income tax law, including changes in law or differing interpretations, which may be applied retroactively, could have a material effect on the U.S. federal income tax consequences of purchasing, owning and disposing of our securities as set forth in this summary.

On December 22, 2017, the U.S. President signed into law H.R. 1, the “Tax Cuts and Jobs Act,” (“Tax Act”) which generally took effect for taxable years beginning on or after January 1, 2018 and, in certain instances, is scheduled to expire for taxable years beginning on or after January 1, 2026.

The Tax Act makes many changes to the U.S. federal income tax laws that significantly impact the taxation of individuals, corporations (both regular subchapter C corporations as well as corporations that have elected to be taxed as REITs), and the taxation of taxpayers with non-U.S. assets and operations. Among its changes, the Tax Act (1) temporarily reduces the top individual income tax rate to 37% (from 39.6%), (2) permanently replaces the progressive corporate tax rate structure with a flat corporate tax rate of 21%, (3) repeals the corporate alternative minimum tax, (4) generally limits net operating loss (“NOL”) deductions to 80% of the taxable income in the carryforward year and eliminates the ability to carryback NOLs that arise in taxable years ending after December 31, 2017, and (5) generally limits the deduction for net business interest expense to 30% of “adjusted taxable income” with certain exceptions for electing real property trades or businesses.

The individual and collective impact of the Tax Act on REITs and their stockholders remains uncertain in some respects and may not become evident for some period of time. Although this summary addresses material provisions enacted by the Tax Act, which may affect REITs and their stockholders, given the complexity of this new law, prospective stockholders should consult their own tax advisors regarding its potential impact on the U.S. federal income tax consequence to them in light of their particular circumstances.

General. We elected to be taxed as a REIT under the U.S. Internal Revenue Code of 1986, as amended (“Code”) beginning with our taxable year ended December 31, 2012. We believe that, commencing with such taxable year, we have been organized and have operated in a manner so as to qualify as a REIT for U.S. federal income tax purposes.

Qualification and taxation as a REIT has depended upon, and will continue to depend upon, our ability to meet on a continuing basis, through actual operating results, distribution levels, diversity of share ownership and various qualification requirements imposed upon REITs by the Code. Our ability to qualify as a REIT also requires that we satisfy certain asset tests (discussed below), some of which depend upon the fair market values of assets directly or indirectly owned by us. Such values may not be susceptible to a precise determination. While we intend to continue to operate in a manner that will allow us to qualify as a REIT, no assurance can be given that the actual results of our operations for any taxable year will satisfy such requirements for qualification and taxation as a REIT.

As a REIT, we generally will not be subject to federal corporate income taxes on that portion of our ordinary income or capital gain we distribute currently to our stockholders, because the REIT provisions of the Code generally allow a REIT to deduct distributions, which are taxable dividends, paid to its stockholders. This substantially eliminates the federal double taxation on earnings (taxation at both the corporate level and stockholder level) that usually results from an investment in a corporation. With limited exceptions, dividends from us or from other entities that are taxed as REITs are generally not eligible for the capital gain rate and will continue to be taxed at rates applicable to ordinary income. Commencing with taxable years beginning on or after January 1, 2018 and continuing through 2025, the Tax Act temporarily reduces the effective tax rate on ordinary REIT dividends (i.e., dividends other than capital gain dividends and dividends attributable to certain qualified dividend income received by us) for U.S. stockholders (as hereinafter defined) of our common stock that are individuals, estates or trusts by permitting such stockholders to claim a deduction in determining their taxable income equal to 20% of any such dividends they receive. Taking into account the Tax Act’s reduction in the maximum individual federal income tax rate from 39.6% to 37%, this results in a maximum effective rate of regular income tax on ordinary REIT dividends of 29.6% through 2025 (as compared to the 20% maximum federal income tax rate applicable to qualified dividend income received from a non-REIT corporation).

Any NOLs, foreign tax credits and other tax attributes generally do not pass through to our stockholders, subject to special rules for certain items such as the capital gains that we recognize.

As a result of the enactment of the Tax Act, effective for taxable years beginning on or after January 1, 2018, our domestic TRSs are subject to U.S. federal income tax on their taxable income at a rate of 21% (as well as applicable state and local income tax), but NOL carryforwards of a TRS arising in taxable years beginning after December 31, 2017 may be deducted only to the extent of 80% of TRS taxable income in the carryforward year (computed without regard to the NOL deduction). In contrast to prior law, which permitted unused NOL carryforwards to be carried back two years and forward 20 years, the Tax Act provides that losses arising in taxable years ending after December 31, 2017 can no longer be carried back but can be carried forward indefinitely.

Commencing in taxable years beginning after December 31, 2017, section 163(j) of the Code, as amended by the Tax Act, limits the deductibility of net interest expense paid or accrued on debt properly allocable to a trade or business to 30% of “adjusted taxable income,” subject to certain exceptions. Any deduction in excess of the limitation is carried forward and may be used in a subsequent year, subject to the 30% limitation in such subsequent year. “Adjusted taxable income” is determined without regard to certain deductions, including those for net interest expense, NOL carryforwards and, for taxable years beginning before January 1, 2022, depreciation, amortization and depletion. Provided the taxpayer makes a timely election (which is irrevocable), the 30% limitation does not apply to a “real property trade or business” within the meaning of section 469(c)(7)(C) of the Code, which generally includes real property development, redevelopment, construction, reconstruction, rental, operation, acquisition, conversion, disposition, management, leasing or brokerage trade or business. If this election is made, depreciable real property (including certain improvements) held by the relevant trade or business must be depreciated under the alternative depreciation system (“ADS”) under the Code, which is generally less favorable than the generally applicable system of depreciation under the Code. In general, while there is no authority under such provision or in the legislative history of the Tax Act that specifically addresses healthcare properties or other facilities, including senior housing facilities and MOB, we believe that our leasing, management and operation of such facilities and buildings should constitute a real property trade or business, and as of the taxable year beginning on January 1, 2018, we elected not to have the interest deduction limitation apply to our trade or business. Thus, we currently are not subject to the limitation on deductibility of net interest expense to 30% of adjusted taxable income. However, we must depreciate depreciable real

property (and certain improvements) under ADS. If, however, the election is determined not to be available with respect to all or certain of our business activities, the new interest deduction limitation could result in us having more REIT taxable income and thus increasing the amount of distributions we must make to comply with the REIT requirements and avoid incurring corporate level tax.

Even if we qualify for taxation as a REIT, however, we will be subject to federal income taxation as follows:

- We will be taxed at the regular corporate rate on our undistributed taxable income, including undistributed net capital gains.
- If we have net gain for tax purposes from prohibited transactions (which are, in general, sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business), such gain will be subject to a 100% tax.
- If we elect to treat property that we acquire in connection with a foreclosure of a mortgage loan or certain leasehold terminations as “foreclosure property,” we may avoid the 100% tax on gain from a sale of that property (if the sale would otherwise constitute a prohibited transaction), but the income from the sale or operation of the property may be subject to corporate income tax at the highest applicable rate.
- If we should fail to satisfy the asset test other than certain de minimis violations or other requirements applicable to REITs, as described below, yet nonetheless maintain our qualification as a REIT because there is reasonable cause for the failure and other applicable requirements are met, we may be subject to an excise tax. In that case, the amount of the tax will be at least \$50,000 per failure, and, in the case of certain asset test failures, will be determined as the amount of net income generated by the assets in question multiplied by the highest corporate tax rate if that amount exceeds \$50,000 per failure.
- If we fail to satisfy either of the 75% or 95% income tests (discussed below) but have nonetheless maintained our qualification as a REIT because certain conditions have been met, we will be subject to a 100% tax on an amount based on the magnitude of the failure, as adjusted to reflect the profit margin associated with our gross income.
- If we fail to distribute during each year at least the sum of (i) 85% of our REIT ordinary income for the year, (ii) 95% of our REIT capital gain net income for such year, and (iii) any undistributed taxable income from prior periods, then we will be subject to a 4% excise tax on the excess of the required distribution over the sum of (A) the amounts actually distributed, plus (B) retained amounts on which corporate level tax is paid by us.
- We may elect to retain and pay tax on our net long-term capital gains. In that case, a U.S. stockholder would be taxed on its proportionate share of our undistributed long-term capital gains and would receive a credit or refund for its proportionate share of the tax we paid.
- If we acquire an appreciated asset from a C corporation that is not a REIT (i.e., a corporation generally subject to corporate level tax) in a transaction in which the C corporation would not normally be required to recognize any gain or loss on disposition of the asset and we subsequently recognize gain on the disposition of the asset during the five-year period beginning on the date on which we acquired the asset, then a portion of the gain may be subject to tax at the regular corporate rate, unless the C corporation made an election to treat the asset as if it were sold for its fair market value at the time of our acquisition of such asset. We will also be required to distribute prior non-REIT earnings and profits (“E&P”).
- We may be required to pay monetary penalties to the U.S. Internal Revenue Service (“IRS”) in certain circumstances, including if we fail to meet record keeping requirements intended to monitor our compliance with rules relating to the composition of a REIT’s stockholders.
- The earnings of our TRSs are subject to federal corporate income tax. In addition, a 100% excise tax will be imposed on the REIT and a corporate level tax on the TRS for transactions between a TRS and the REIT that are deemed not to be conducted on an arm’s length basis.

In addition, we and our subsidiaries may be subject to a variety of taxes, including payroll taxes and state, local, foreign, property and other taxes, on our assets and operations. We could also be subject to tax in situations and on transactions not presently contemplated.

Requirements for Qualification as a REIT. Our qualification as a REIT has depended upon and will continue to depend upon our meeting and continuing to meet the requirements discussed below relating to our organization, sources of income, nature of assets and distributions of income to our stockholders.

Organizational Requirements. In order to qualify for taxation as a REIT under the Code we must meet tests regarding our income and assets described below and we must (i) be a corporation, trust or association that would be taxable as a domestic corporation but for the REIT provisions of the Code; (ii) be managed by one or more trustees or directors; (iii) have our beneficial ownership evidenced by transferable shares; (iv) not be a financial institution or an insurance company subject to special provisions of the federal income tax laws; (v) use a calendar year for federal income tax purposes; (vi) have at least 100 stockholders for at least 335 days of each taxable year of 12 months or during a proportionate part of a taxable year of less than 12 months; and (vii) not be closely held, as defined for purposes of the REIT provisions of the Code.

We would be treated as closely held if, during the last half of any taxable year, more than 50% in value of our outstanding capital shares is owned, directly or indirectly through the application of certain attribution rules, by five or fewer individuals, as defined in the Code to include certain entities. Items (vi) and (vii) above do not apply until after the first taxable year for which we elect to be taxed as a REIT. If we comply with the U.S. Department of the Treasury regulations (“Treasury Regulations”) that provide procedures for ascertaining the actual ownership of our common stock for each taxable year and we did not know, and with the exercise of reasonable diligence could not have known, that we failed to meet item (vii) above for a taxable year, we will be treated as having met item (vii) for that year.

We have elected to be taxed as a REIT commencing with our taxable year ended December 31, 2012, and we intend to satisfy the other requirements described in items (i) through (v) above at all times during each of our taxable years. In addition, our charter contains restrictions regarding ownership and transfer of shares of our common stock that are intended to assist us in continuing to satisfy the share ownership requirements in items (vi) and (vii) above.

For purposes of the requirements described herein, any corporation that is a qualified REIT subsidiary of ours will not be treated as a corporation separate from us and all assets, liabilities and items of income, deduction and credit of our qualified REIT subsidiaries will be treated as our assets, liabilities and items of income, deduction and credit. A qualified REIT subsidiary is a corporation, other than a TRS (described below under “— Operational Requirements — Asset Tests”), of which all of its capital shares are owned by a REIT.

In the case of a REIT that is a partner in an entity treated as a partnership for federal tax purposes, the REIT is treated as owning its proportionate share, based on its capital interest, of the assets of the partnership and as earning its allocable share of the gross income of the partnership for purposes of the requirements described herein. In addition, the character of the assets and gross income of the partnership will retain the same character in the hands of the REIT for purposes of the REIT requirements, including the asset and income tests described below. As a result, our proportionate share, based on our capital interest, of the assets, liabilities and items of income of our operating partnership and of any other partnership, joint venture, limited liability company or other entity treated as a partnership for federal tax purposes in which we or the operating partnership have an interest, will be treated as our assets, liabilities and items of income.

The Code provides relief from violations of the REIT gross income requirements, as described below under “— Operational Requirements — Gross Income Tests,” in cases where a violation is due to reasonable cause and not willful neglect, and other requirements are met, including the payment of a penalty tax that is based upon the magnitude of the violation. In addition, the Code includes provisions that extend similar relief in the case of certain violations of the REIT asset requirements (see “— Operational Requirements — Asset Tests” below) and other REIT requirements, again provided that the violation is due to reasonable cause and not willful neglect, and other conditions are met, including the payment of a penalty tax. If we fail to satisfy any of the various REIT requirements, there can be no assurance that these relief provisions would be available to enable us to maintain our qualification as a REIT. If relief provisions are available, the amount of any resultant penalty tax could be substantial.

Operational Requirements — Gross Income Tests. To maintain our qualification as a REIT, we must satisfy annually two gross income requirements:

- At least 75% of our gross income, excluding gross income from prohibited transactions, for each taxable year must be derived directly or indirectly from investments relating to real property or mortgages on real property and from other specified sources, including qualified temporary investment income, as described below. Gross income includes “rents from real property” (as defined in the Code) and, in some circumstances, interest, but excludes gross income from dispositions of property held primarily for sale to customers in the ordinary course of a trade or business. These dispositions are referred to as “prohibited transactions.” This is the “75% Income Test.”
- At least 95% of our gross income, excluding gross income from prohibited transactions, for each taxable year must be derived from the real property investments described above and generally from dividends and interest and gains from the sale or disposition of shares of common stock or securities or from any combination of the foregoing. This is the “95% Income Test.”

The rents we will receive or be deemed to receive will qualify as “rents from real property” for purposes of satisfying the gross income requirements for a REIT only if the following conditions are met:

- The amount of rent received from a tenant must not be based in whole or in part on the income or profits of any Person; however, an amount received or accrued generally will not be excluded from the term “rents from real property” solely by reason of being based on a fixed percentage or percentages of gross receipts or sales.
- In general, neither we nor an owner of 10% or more of our common stock may directly or constructively own 10% or more of a tenant, which we refer to as a “Related Party Tenant,” or a subtenant of the tenant (in which case only rent attributable to the subtenant is disqualified).
- Rent attributable to personal property leased in connection with a lease of real property cannot be greater than 15% of the total rent received under the lease, as determined based on the average of the fair market values as of the beginning and end of the taxable year.
- We normally must not operate or manage the property or furnish or render services to tenants, other than through an “independent contractor” (as defined in the Code) who is adequately compensated and from whom we do not derive any income or through a TRS (discussed below). However, a REIT may provide services with respect to its properties, and the income derived therefrom will qualify as “rents from real property” if the services are “usually or customarily rendered” in connection with the rental of space only and are not otherwise considered “rendered to the occupant”. Even if the services provided by us with respect to a property are impermissible customer services, the income derived therefrom will qualify as “rents from real property” if such income does not exceed 1% of all amounts received or accrued with respect to that property.

Interest income constitutes qualifying mortgage interest for purposes of the 75% Income Test to the extent that the obligation upon which such interest is paid is secured by a mortgage on real property. If we receive interest income with respect to a mortgage loan that is secured by both real property and other property, and the highest principal amount of the loan outstanding during a taxable year exceeds the fair market value of the real property on the date that we acquired or originated the mortgage loan, the interest income will be apportioned between the real property and the other collateral, and our income from the arrangement will qualify for purposes of the 75% Income Test only to the extent that the interest is allocable to the real property. Even if a loan is not secured by real property, or is under-secured, the income that it generates may nonetheless qualify for purposes of the 95% Income Test.

To the extent the terms of a loan provide for contingent interest that is based on the cash proceeds realized upon the sale of the property securing the loan (“Shared Appreciation Provision”), income attributable to the participation feature will be treated as gain from sale of the underlying real property, which generally will be qualifying income for purposes of both the 75% Income Test and 95% Income Test, provided that such property is not held as inventory or dealer property or primarily for sale to customers in the ordinary course of business. Similar to the treatment of contingent rents from real property (discussed above), to the extent that we derive interest income from a mortgage loan where all or a portion of the amount of interest or rental income payable is contingent, such income generally will qualify for purposes of the 75% Income Test and 95% Income Test only if it is based upon the gross receipts or sales and not on the net income or profits of the borrower.

We may invest in mezzanine loans, which are loans secured by equity interests in an entity that directly or indirectly owns real property, rather than by a direct mortgage of the real property. The IRS has issued Revenue Procedure 2003-65, which provides a safe harbor applicable to mezzanine loans. Under the Revenue Procedure, if a mezzanine loan meets each of the requirements contained in the Revenue Procedure, (i) the mezzanine loan will be treated by the IRS as a real estate asset for purposes of the Asset Tests described below, and (ii) interest derived from the mezzanine loan will be treated as qualifying mortgage interest for purposes of the 75% Income Test. Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law. We intend to structure any investments in mezzanine loans or similar products in a manner that generally complies with the various requirements applicable to our qualification as a REIT. Certain of our mezzanine loans may qualify under the safe harbor set forth in the Revenue Procedure. However, we may make or acquire some mezzanine loans that do not qualify for the safe harbor. To the extent that any of our mezzanine loans do not meet all of the requirements for reliance on the safe harbor set forth in the Revenue Procedure, there can be no assurance that the IRS will not challenge the tax treatment of these loans as real estate assets.

We may, from time to time, enter into hedging transactions with respect to interest rate exposure or currency fluctuation on one or more of our assets or liabilities. Any such hedging transactions could take a variety of forms, including the use of derivative instruments such as interest rate swap contracts, interest rate cap or floor contracts, futures or forward contracts, and options. To the extent that we or a pass-through subsidiary enters into a hedging transaction (i) to reduce interest rate risk on indebtedness incurred to acquire or carry real estate assets, (ii) to manage risk of currency fluctuations with respect to any item of income that would qualify under the 75% Income Test or the 95% Income Test, or (iii) for taxable years beginning after December 31, 2015, new hedging transactions entered into to hedge the income or loss from prior hedging transactions, where the property or indebtedness which was the subject of the prior hedging transaction was extinguished or disposed of, and the instrument is properly identified as a hedge along with the risk it hedges within prescribed time periods, any periodic income from the instrument, or gain from the disposition of such instrument, would be excluded altogether from the 95% Income Test or the 75% Income Test.

To the extent that we hedge in certain other situations, the resultant income will be treated as income that does not qualify under the 75% Income Test or the 95% Income Test, provided that certain requirements are met. We intend to structure any hedging transactions in a manner that does not jeopardize our status as a REIT. We may conduct some or all of our hedging activities through a TRS or other corporate entity, the income from which may be subject to federal, state, and/or international income tax, rather than by participating in the arrangements directly or through pass-through subsidiaries. No assurance can be given, however, that our hedging activities will not give rise to income that does not qualify for purposes of either or both of the REIT income tests, or that our hedging activities will not adversely affect our ability to satisfy the REIT qualification requirements.

Prior to the making of investments in real properties, we invested a portion of our Net Offering Proceeds in liquid assets such as government securities or certificates of deposit. For purposes of the 75% Income Test, income attributable to a stock or debt instrument purchased with the proceeds received by a REIT in exchange for stock in the REIT (other than amounts received pursuant to a distribution reinvestment plan) constitutes qualified temporary investment income if such income is received or accrued during the one-year period beginning on the date the REIT receives such new capital. We expect the bulk of the remainder of our income to qualify under the 75% Income and 95% Income Tests as rents from real property, gains from the sale of real property interests and interest on mortgages on real property in accordance with the requirements described above.

With regard to rental income, we anticipate most of our leases will be for fixed rentals with annual CPI or similar adjustments and that none of the rentals under our leases will be based on the income or profits of any Person. Rental leases may provide for payments based on gross receipts, which are generally permissible under the REIT income tests. In addition, none of our tenants are expected to be “Related Party Tenants” and the portion of the rent attributable to personal property is not expected to exceed 15% of the total rent to be received under any lease. We anticipate that all or most of the services to be performed with respect to our real properties will be performed by our property manager, and such services are expected to be those usually or customarily rendered in connection with the rental of real property and not rendered to the occupant of such real property. Finally, we anticipate any non-customary services will be provided by a TRS or, alternatively, by an independent contractor that is adequately compensated and from whom we derive no income. However, we can give no assurance that the actual sources of our gross income will allow us to satisfy the 75% Income Test and the 95% Income Test described above.

Further, we and our subsidiaries may hold investments in, and pay taxes to, foreign countries. Taxes that we pay in foreign jurisdictions may not be passed through to, or used by, our stockholders or us as a foreign tax credit or otherwise. Our foreign investments might also generate foreign currency gains and losses. Foreign currency gains that we derive from certain of our investments will be excluded for purposes of computing the REIT income tests if such foreign currency gain is “real estate foreign exchange gain” (as defined in the Code), that is, if such gains are attributable to any item of income that itself qualifies for purposes of the 75% Income Test or other specified sources. Other foreign currency gains, however, if such foreign currency gain is “passive foreign exchange gain” (as defined in the Code), will be excluded for purposes of computing the 95% Income Test but will be treated as income that does not qualify under the 75% Income Test. Generally, “passive foreign exchange gain” includes foreign exchange gain attributable to any item of income that itself qualifies for purposes of the 95% Income Test or other specified sources.

The Tax Act made fundamental changes to the U.S. international tax system that could affect the amount, timing or character of income we recognize with respect to any foreign subsidiary and, thus, may impact our decision to make investments in foreign jurisdictions. For example, if we were to form a foreign subsidiary, we would be subject to new rules enacted under the Tax Act which could subject us to current U.S. federal income tax on a portion of our income attributable to such foreign subsidiary.

Notwithstanding our failure to satisfy one or both of the 75% Income and the 95% Income Tests for any taxable year, we may still qualify as a REIT for that year if we are eligible for relief under specific provisions of the Code. These relief provisions generally will be available if:

- our failure to meet these tests was due to reasonable cause and not due to willful neglect; and
- following our identification of the failure, we file a schedule with a description of each item of gross income that caused the failure in accordance with Treasury Regulations.

It is not possible, however, to state whether, in all circumstances, we would be entitled to the benefit of these relief provisions. In addition, as discussed above, even if these relief provisions apply, a tax would be imposed with respect to the excess net income.

Operational Requirements — Prohibited Transactions. A “prohibited transaction” is a sale by a REIT of real property or other assets held primarily for sale in the ordinary course of the REIT’s trade or business (i.e., real property or other assets that are not held for investment but are held as inventory for sale by the REIT). A 100% penalty tax is imposed on any gain realized by a REIT from a prohibited transaction (including our distributive share of any such gain realized by our operating partnership). Under existing law, whether property is held as inventory or primarily for sale to customers in the ordinary course of a trade or business is a question of fact that depends on all the facts and circumstances surrounding the particular transaction. We do not presently intend to acquire or hold or allow the operating partnership to acquire or hold any property that represents inventory or other property held primarily for sale to customers in the ordinary course of our or the operating partnership’s trade or business.

A safe harbor to the characterization of the sale of property by a REIT as a prohibited transaction and the 100% prohibited transaction tax is available if the following requirements are met:

- the REIT has held the property for not less than two years;

- the aggregate expenditures made by the REIT, or any partner of the REIT, during the two-year period preceding the date of the sale that are includable in the basis of the property do not exceed 30% of the net selling price of the property;
- either (i) during the year in question, the REIT did not make more than seven sales of property other than foreclosure property or like-kind exchanges under section 1031 of the Code, or (ii) the aggregate adjusted bases of the non-foreclosure property sold by the REIT during the year did not exceed 20% of the aggregate bases of all of the assets of the REIT at the beginning of such year, or (iii) the fair market value of the non-foreclosure property sold by the REIT during the year did not exceed 20% of the fair market value of all the assets of the REIT at the beginning of such year (10% for both aggregate basis and fair market value determinations beginning with taxable years beginning before December 18, 2015);
- the REIT has held the property for at least two years for the production of rental income; and
- if the REIT has made more than seven sales of non-foreclosure property during the year, substantially all of the marketing and development expenditures with respect to the property were made through an independent contractor from whom the REIT derives no income.

For purposes of the limitation on the number of sales that a REIT may complete in any given year, the sale of more than one property to one buyer will be treated as one sale. Moreover, if a REIT obtains replacement property pursuant to a like-kind exchange under section 1031 of the Code, then it will be entitled to tack the holding period it has in the relinquished property for purposes of the two-year holding period requirement. Under the Tax Act, generally effective for exchanges completed after December 31, 2017, the rule providing for nonrecognition of gain in the case of like-kind exchanges is limited to exchanges of real property only, and no longer applies to tangible personal property or intangible property.

The failure of a sale to fall within the safe harbor does not alone cause such sale to be a prohibited transaction and subject to the 100% prohibited transaction tax. In that event, the particular facts and circumstances of the transaction must be analyzed to determine whether it is a prohibited transaction.

Operational Requirements — Asset Tests. At the close of each quarter of our taxable year, starting with the taxable year ending December 31, 2012 (i.e., starting with the quarter ending March 31, 2012), we also must satisfy four tests, which we refer to as “Asset Tests,” relating to the nature and diversification of our assets.

- First, at least 75% of the value of our total assets must be represented by real estate assets, cash, cash items and government securities. The term “real estate assets” includes real property, mortgages on real property, shares of common stock in other qualified U.S. REITs, property attributable to the temporary investment of new capital as described above and a proportionate share of any real estate assets owned by a partnership in which we are a partner (for example, our operating partnership) or of any qualified REIT subsidiary of ours. For taxable years beginning after December 31, 2015, the term “real estate assets” also includes debt instruments of publicly offered REITs, personal property securing a mortgage secured by both real property and personal property if the fair market value of such personal property does not exceed 15% of the total fair market value of all such property, and personal property leased in connection with a lease of real property for which the rent attributable to personal property is not greater than 15% of the total rent received under the lease.
- Second, no more than 25% of our total assets may be represented by securities other than those in the 75% asset class.
- Third, of the investments included in the 25% asset class, the value of any one issuer’s securities that we own may not exceed 5% of the value of our total assets. Additionally, we may not own more than 10% of the voting power or value of any one issuer’s outstanding securities, which we refer to as the “10% Asset Test.” The 10% Asset Test does not apply to securities of a TRS, nor does it apply to certain “straight debt” (as defined in the Code) instruments possessing certain characteristics. The term “securities” also does not include the equity or debt securities of a qualified REIT subsidiary of ours or an equity interest in any entity treated as a partnership for federal tax purposes.

- Fourth, no more than 20% (25% for our taxable years beginning before December 31, 2017) of the value of our total assets may consist of the securities of one or more TRSs.
- Fifth, for taxable years beginning after December 31, 2015, not more than 25% of the value of our total assets may be represented by debt instruments of publicly offered REITs to the extent those debt instruments would not be real estate assets but for the inclusion of debt instruments of publicly offered REITs in the meaning of real estate assets effective for taxable years beginning after December 31, 2015, as described above.

Any interests we hold in a real estate mortgage investment conduit (“REMIC”) will generally qualify as real estate assets and income derived from REMIC interests will generally be treated as qualifying income for purposes of the REIT income tests described above. If less than 95% of the assets of a REMIC are real estate assets, however, then only a proportionate part of our interest in the REMIC and income derived from the interest will qualify for purposes of the REIT asset and income tests. If we hold a “residual interest” (as defined in the Code) in a REMIC from which we derive “excess inclusion income” (as defined in the Code), we will be required either to distribute the excess inclusion income or to pay tax on it (or a combination of the two), even though we may not receive the income in cash. To the extent that distributed excess inclusion income is allocable to a particular stockholder, the income (i) would not be allowed to be offset by any NOLs otherwise available to the stockholder, (ii) would be subject to tax as unrelated business taxable income (“UBTI”) in the hands of most types of stockholders that are otherwise generally exempt from federal income tax, and (iii) would result in the application of U.S. federal income tax withholding at the maximum rate without reduction pursuant to any otherwise applicable income tax treaty, to the extent allocable to most types of foreign stockholders. Moreover, any excess inclusion income that we receive that is allocable to specified categories of tax-exempt investors which are not subject to unrelated business income tax, such as government entities, may be subject to corporate-level income tax in our hands, whether or not it is distributed.

To the extent we hold mortgage participations or commercial mortgage-backed securities that do not represent REMIC interests, such assets may not qualify as real estate assets, and the income generated from them may not qualify for purposes of either or both of the REIT income tests, depending upon the circumstances and the specific structure of the investment.

We may enter into sale and repurchase agreements under which we would nominally sell certain of our loan assets to a counterparty and simultaneously enter into an agreement to repurchase the sold assets. We believe that we would be treated for U.S. federal income tax purposes as the owner of the loan assets that are the subject of any such agreement notwithstanding that such agreements may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we did not own the loan assets during the term of the sale and repurchase agreement, in which case we could fail to qualify as a REIT.

Certain of our mezzanine loans which may qualify for the safe harbor in Revenue Procedure 2003-65 pursuant to which certain loans secured by a first priority security interest in ownership interests in a partnership or limited liability company will be treated as qualifying assets for purposes of the 75% real estate asset test and the 10% Asset Test. See “— Operational Requirements — Gross Income Tests.” We may make some mezzanine loans that do not qualify for that safe harbor and that do not qualify as “straight debt” securities or for one of the other exclusions from the definition of “securities” for purposes of the 10% value test. We intend to make such investments in such a manner as not to fail the Asset Tests described above.

Independent appraisals are not necessarily obtained by us to support our conclusions as to the value of our total assets or the value of any particular security or securities for purposes of these operational requirements. Moreover, values of some assets, including instruments issued in securitization transactions, may not be susceptible to a precise determination, and values are subject to change in the future. Furthermore, the proper classification of an instrument as debt or equity for federal income tax purposes may be uncertain in some circumstances, which could affect the application of the REIT asset requirements. Accordingly, there can be no assurance that the IRS will not contend that our interests in our subsidiaries or in the securities of other issuers will not cause a violation of the REIT asset tests.

The Asset Tests must generally be met for each quarter. Upon full investment of the Net Offering Proceeds, most of our assets have consisted of “real estate assets” and we therefore expect to satisfy the Asset Tests.

If we meet the Asset Tests at the close of any quarter, we maintain our qualification as a REIT despite a failure to satisfy the Asset Tests at the end of a later quarter in which we have not acquired any securities or other property if such failure occurs solely because of changes in asset values. If our failure to satisfy the Asset Tests results from an acquisition of securities or other property during a quarter, we can cure the failure by disposing of a sufficient amount of non-qualifying assets within 30 days after the close of that quarter. We intend to maintain adequate records of the value of our assets to ensure compliance with the Asset Tests and to take other action within 30 days after the close of any quarter as may be required to cure any noncompliance. If that does not occur, we may nonetheless qualify for one of the relief provisions described below.

The Code contains a number of provisions applicable to REITs, including relief provisions that allow REITs to satisfy the asset requirements, or to maintain REIT qualification notwithstanding certain violations of the asset and other requirements.

One such provision allows a REIT which fails one or more of the asset requirements to nevertheless maintain its REIT qualification if (i) it provides the IRS with a description of each asset causing the failure; (ii) the failure is due to reasonable cause and not willful neglect; (iii) the REIT pays a tax equal to the greater of (A) \$50,000 per failure; or (B) the product of the net income generated by the assets that caused the failure multiplied by the highest applicable corporate tax rate; and (iv) the REIT either disposes of the assets causing the failure within six months after the last day of the quarter in which it identifies the failure, or otherwise satisfies the relevant asset tests within that time frame.

A second relief provision applies to de minimis violations of the 10% and 5% asset tests. A REIT may maintain its qualification despite a violation of such requirements if (i) the value of the assets causing the violation do not exceed the lesser of 1% of the REIT's total assets and \$10,000,000, or (ii) the REIT either disposes of the assets causing the failure within six months after the last day of the quarter in which it identifies the failure, or the relevant tests are otherwise satisfied within that time frame.

The Code also provides that certain securities will not cause a violation of the 10% value test described above. Such securities include instruments that constitute "straight debt," which includes securities having certain contingency features. A security cannot qualify as "straight debt" if a REIT (or a controlled TRS) owns other securities in the issuer of that security which do not qualify as straight debt, unless the value of those other securities constitutes, in the aggregate, 1% or less of the total value of that issuer's outstanding securities. In addition to straight debt, the Code provides that certain other securities will not violate the 10% value test. Such securities include:

- any loan made to an individual or an estate;
- certain rental agreements in which one or more payments are to be made in subsequent years (other than agreements between a REIT and certain Persons related to the REIT);
- any obligation to pay rents from real property;
- securities issued by governmental entities that are not dependent in whole or in part on the profits of (or payments made by) a non-governmental entity;
- any security issued by another REIT; and
- any debt instrument issued by a partnership if the partnership's income is of a nature that it would satisfy the 75% Income Test described above under "— Operational Requirements — Gross Income Tests."

In addition, when applying the 10% value test, a debt security issued by a partnership is not taken into account to the extent, if any, of the REIT's proportionate equity interest in that partnership.

Operational Requirements — Annual Distribution Requirement. In order to be taxed as a REIT, we are required to make cash or taxable property distributions, other than capital gain distributions, to our stockholders each year in the amount of at least 90% of our taxable income (computed without regard to the dividends paid deduction and our net capital gain and subject to certain other potential adjustments) for all tax years. While we must generally make distributions in the taxable year to which they relate, we may also make distributions in the following taxable year if (i) they are declared before we timely file our federal income tax return for the taxable year in question and (ii) they are paid on or before the first regular distribution payment date after the declaration.

Even if we satisfy the foregoing distribution requirement and, accordingly, continue to qualify as a REIT for tax purposes, we will still be subject to federal income tax on the excess of our net capital gain and our REIT taxable income, as adjusted, over the amount of distributions to stockholders.

In addition, if we fail to distribute during each calendar year at least the sum of:

- 85% of our ordinary income for that year;
- 95% of our capital gain net income other than the capital gain net income which we elect to retain and pay tax on for that year; and
- any undistributed taxable income from prior periods,

then we will be subject to a 4% non-deductible excise tax on the excess of the amount of the required distributions over the sum of (i) the amounts actually distributed plus (ii) retained amounts on which corporate level tax is paid by us.

We intend to make timely distributions sufficient to satisfy this requirement; however, it is possible we may experience timing differences between (i) the actual receipt of income and payment of deductible expenses, and (ii) the inclusion of that income and deduction of those expenses for purposes of computing our taxable income. Further, under changes made by the Tax Act, income generally must be accrued for U.S. federal income tax purposes no later than the taxable year in which such income is taken into account as revenue in our financial statements, which could create a mismatch between our taxable income and the actual receipt of cash attributable to such income. It is also possible we may be allocated a share of net capital gain attributable to the sale of depreciated property by the operating partnership, or any other partnership in which we own an interest, that exceeds our allocable share of cash attributable to that sale. In those circumstances, we may have less cash than is necessary to meet our annual distribution requirement or to avoid income or excise taxation on undistributed income.

We may find it necessary in those circumstances to arrange for financing, raise funds through the issuance of additional shares of our common stock or to make a taxable stock distribution in order to meet our distribution requirements. If we fail to satisfy the distribution requirement for any taxable year by reason of a later adjustment to our taxable income made by the IRS, we may be able to pay “deficiency dividends” (as defined in the Code) in a later year and include such distributions in our deductions for dividends paid for the earlier year. In that event, we may be able to avoid the disqualification of our REIT status or being taxed on amounts distributed as deficiency dividends, but we would be required to pay interest and a penalty to the IRS based upon the amount of any deduction taken for deficiency dividends for the earlier year.

As noted above, we may also elect to retain, rather than distribute, some or all of our net long-term capital gains. The effect of such an election would be as follows:

- We would be required to pay the federal income tax on the undistributed gains;
- Taxable U.S. stockholders, while required to include their proportionate share of the undistributed long-term capital gains in income, would receive a credit or refund for their share of the tax paid by the REIT; and
- The basis of the stockholder’s shares of our common stock would be increased by the difference between the designated amount included in the stockholder’s long-term capital gains and the tax deemed paid with respect to such shares of common stock.

In computing our taxable income, we will use the accrual method of accounting and intend to depreciate depreciable property under the ADS. We are required to file an annual federal income tax return, which, like other corporate returns, is subject to examination by the IRS. Because the tax law requires us to make many judgments regarding the proper treatment of a transaction or an item of income or deduction, it is possible that the IRS will challenge positions we take in computing our taxable income and our distributions.

Challenges could arise, for example, with respect to the allocation of the purchase price of real properties between depreciable or amortizable assets and non-depreciable or non-amortizable assets such as land and the current deductibility of fees paid to our Advisor or its affiliates. If the IRS were to successfully challenge our characterization of a transaction or determination of our taxable income, we could be found to have failed to satisfy a requirement for qualification as a REIT. If we are determined to have failed to satisfy the distribution requirements for a taxable year, we would be disqualified as a REIT, unless we were permitted to pay a deficiency dividend to our stockholders and pay interest thereon to the IRS, as provided by the Code.

Operational Requirement — Recordkeeping. We must maintain certain records as set forth in Treasury Regulations in order to avoid the payment of monetary penalties to the IRS. Such Treasury Regulations require that we request, on an annual basis, certain information designed to disclose the ownership of shares of our outstanding common stock. We intend to comply with these requirements. See “— Statement of Share Ownership” below.

Taxable REIT Subsidiaries. A TRS is any corporation in which a REIT directly or indirectly owns stock, provided that the REIT and that corporation make a joint election to treat the corporation as a TRS. The election can be revoked at any time as long as the REIT and the TRS revoke such election jointly. In addition, if a TRS holds, directly or indirectly, more than 35% of the securities of any other corporation (by vote or by value), then that other corporation also is treated as a TRS. A corporation can be a TRS with respect to more than one REIT. We may form one or more TRSs for the purpose of owning and selling properties that do not meet the requirements of the “prohibited transactions” safe harbor. See “— Requirements for Qualification as a REIT — Operational Requirements — Prohibited Transactions” above.

To the extent of its taxable income, a TRS is subject to federal income tax at the regular corporate rate and also may be subject to state and local taxation. Any distributions paid or deemed paid by any one of our TRSs also will be subject to tax, either (i) to us if we do not pay the distributions received to our stockholders as distributions, or (ii) to our stockholders if we do pay out the distributions received to our stockholders. Further, the rules impose a 100% excise tax on transactions between a TRS and its parent REIT or to the REIT’s tenants that are not conducted on an arm’s-length basis. We may hold more than 10% of the stock of a TRS without jeopardizing our qualification as a REIT notwithstanding the rule described above under “— Requirements for Qualification as a REIT — Operational Requirements — Asset Tests” that generally precludes ownership of more than 10% (by vote or value) of any issuer’s securities.

However, as noted below, in order for us to qualify as a REIT, the non-mortgage securities (both debt and equity) of all of the TRSs in which we have invested either directly or indirectly may not represent more than 20% (25% for our taxable years beginning before December 31, 2017) of the total value of our assets. We expect that the aggregate value of all of our interests in TRSs will represent less than 20% of the total value of our assets. We cannot, however, assure you that we will always satisfy the 20% value limit or that the IRS will agree with the value we assign to our TRSs.

We may engage in activities indirectly through a TRS as necessary or convenient to avoid receiving the benefit of income or services that would jeopardize our REIT status if we engaged in the activities directly. In particular, in addition to the ownership of certain of our properties as noted above, we would likely use TRSs for providing services that are non-customary or that might produce income that does not qualify under the gross income tests described above. We may also use TRSs to satisfy various lending requirements with respect to special-purpose bankruptcy-remote entities.

Finally, while a REIT is generally limited in its ability to earn rents that qualify as “rents from real property” from a related party as defined by the Code, a REIT can earn “rents from real property” from the lease of a qualified healthcare property or qualified lodging facility to a TRS (even a wholly owned TRS) if an eligible independent contractor operates the facility. Generally, a qualified healthcare property means a property which is a healthcare facility or is necessary or incidental to the use of a healthcare facility. A qualified healthcare facility is defined as a hospital, nursing facility, assisted living facility, congregate care facility, qualified continuing care facility or other licensed facility

which extends medical or nursing or ancillary services to patients operated by a provider of such services which was eligible for participation in the Medicare program under title XVIII of the Social Security Act with respect to such facility. Qualified lodging facilities are defined as hotels, motels or other establishments where more than half of the dwelling units are used on a transient basis, provided that legally authorized wagering or gambling activities are not conducted at or in connection with such facilities. Also included in the definition are the qualified lodging facility's customary amenities and facilities. For these purposes, a contractor qualifies as an "eligible independent contractor" if it is less than 35% affiliated with the REIT and, at the time the contractor enters into the agreement with the TRS to operate the qualified healthcare property or qualified lodging facility, that contractor or any Person related to that contractor is actively engaged in the trade or business of operating qualified healthcare properties or qualified lodging facilities, respectively, for Persons unrelated to the TRS or its affiliated REIT. For these purposes, an otherwise eligible independent contractor is not disqualified from that status on account of the TRS bearing the expenses for the operation of the qualified healthcare property or qualified lodging facility, the TRS receiving the revenues from the operation of the qualified healthcare property or qualified lodging facility, net of expenses for that operation and fees payable to the eligible independent contractor, or the REIT receiving income from the eligible independent contractor pursuant to a preexisting or otherwise grandfathered lease of another property.

Failure to Qualify as a REIT. If we fail to qualify as a REIT for any reason in a taxable year and applicable relief provisions do not apply, then we will be subject to tax on our taxable income at the regular corporate rate. We will not be able to deduct dividends paid to our stockholders in any year in which we fail to qualify as a REIT. In addition, if we fail to qualify as a REIT, all distributions to stockholders will be taxable as regular corporate dividends to the extent of current or accumulated E&P. In this event, stockholders taxed as individuals will be taxed on these dividends at the preferential income tax rates currently in effect for qualified dividends received from taxable C corporations and corporate distributees may be eligible for the dividends received deduction. We also will be disqualified for the four taxable years following the year during which qualification was lost unless we are entitled to relief under specific statutory provisions. It is not possible to state whether we would be entitled to this statutory relief.

Sale-Leaseback Transactions. We normally intend to treat our property leases as true leases for federal income tax purposes. However, depending on the terms of any specific transaction, the IRS might take the position that the transaction is not a true lease but is more properly treated in some other manner. If such re-characterization were successful, we would not be entitled to claim the depreciation deductions available to an owner of the property. In addition, the re-characterization of one or more of these transactions might cause us to fail to satisfy the Asset Tests or the REIT income tests described above based upon the asset we would be treated as holding or the income we would be treated as having earned and such failure could result in our failing to qualify as a REIT.

Alternatively, the amount or timing of income inclusion or the loss of depreciation deductions resulting from the re-characterization might cause us to fail to meet the distribution requirement described above for one or more taxable years absent the availability of the deficiency dividend procedure or might result in a larger portion of our dividends being treated as ordinary income to our stockholders.

Taxation of Taxable U.S. Stockholders

Definition. In this section, the phrase "U.S. stockholder" means a holder of our common stock that for federal income tax purposes is:

- a citizen or resident of the U.S.;
- a corporation, partnership or other entity treated as a corporation or partnership for U.S. federal income tax purposes created or organized in or under the laws of the U.S. or of any political subdivision thereof;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust, if a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. Persons have the authority to control all substantial decisions of the trust.

If a partnership, including for this purpose any entity that is treated as a partnership for U.S. federal income tax purposes, holds our common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. An investor that is a partnership and the partners in such partnership should consult their tax advisors about the U.S. federal income tax consequences of the acquisition, ownership and disposition of our common stock.

For any taxable year for which we qualify for taxation as a REIT, amounts distributed to, and gains realized by, taxable U.S. stockholders with respect to our common stock generally will be taxed as described below.

Distributions Generally. Distributions paid to U.S. stockholders, other than capital gain distributions discussed below, made out of our current or accumulated E&P will be taxable to the stockholders as ordinary income for federal income tax purposes. These distributions are not eligible for the dividends received deduction generally available to corporations. In addition, with limited exceptions, these distributions are not eligible for taxation at the preferential income tax rates currently in effect for qualified dividends received by U.S. stockholders that are individuals, trusts and estates from taxable C corporations. However, under the Tax Act, non-corporate stockholders may generally deduct 20% of the aggregate amount of ordinary REIT dividends distributed by us (other than “capital gain dividends” or “qualified dividend income”) for taxable years beginning after December 31, 2017 and before January 1, 2026, thereby reducing the maximum effective tax rate applicable to REIT ordinary dividends to 29.6% (assuming the current maximum individual income tax rate of 37% applies). Stockholders that are individuals, trusts or estates however, may be taxed at the preferential rates currently in effect (assuming the relevant holding periods have been met) on dividends designated by and received from us to the extent that the dividends are attributable to (i) income retained by us in the prior taxable year on which we were subject to corporate level income tax (less the amount of tax), (ii) dividends received by us from taxable C corporations, including any dividends we may receive from a TRS, or (iii) income in the prior taxable year from the sales of “built-in gain” property acquired by us from C corporations in carryover basis transactions (less the amount of corporate tax on such income).

To the extent we make a distribution in excess of our current and accumulated E&P, the distribution will be treated first as a tax-free return of capital, reducing the tax basis in a U.S. stockholder’s shares of common stock, and the amount of each distribution in excess of a U.S. stockholder’s tax basis in its shares of common stock will be taxable as gain realized from the sale of its shares of common stock. Dividends we declare in October, November or December of any year payable to a stockholder of record on a specified date in any of these months will be treated as both paid by us and received by the stockholder on December 31 of the year, provided that we actually pay the dividends during January of the following calendar year.

To the extent we have available NOLs (after application of the 80% limitation enacted under the Tax Act as described above) and capital losses carried forward from prior tax years, such losses may reduce the amount of distributions we must make in order to comply with the REIT distribution requirements. See “— Requirements for Qualification as a REIT — Operational Requirements — Annual Distribution Requirement.” Such losses, however, are not passed through to stockholders and do not offset income of stockholders from other sources, nor would such losses affect the character of any distributions that we make, which are generally subject to tax in the hands of stockholders to the extent that we have current or accumulated E&P.

If excess inclusion income from a taxable mortgage pool or REMIC residual interest is allocated to any stockholder, that income will be taxable in the hands of the stockholder and would not be offset by any NOLs of the stockholder that would otherwise be available. As required by IRS guidance, we intend to notify our stockholders if a portion of a dividend paid by us is attributable to excess inclusion income.

We will be treated as having sufficient E&P to treat as a dividend any distribution by us up to the amount required to be distributed in order to avoid imposition of the 4% excise tax discussed above. Moreover, any “deficiency distribution” will be treated as an ordinary or capital gain distribution, as the case may be, regardless of our E&P. As a result, stockholders may be required to treat as taxable some distributions that would otherwise result in a tax-free return of capital.

Distributions to U.S. stockholders that we properly designate as capital gain distributions normally will be treated as long-term capital gains to the extent they do not exceed our actual net capital gain for the taxable year without regard to the period for which the U.S. stockholder has held his or her shares of common stock and, for taxable years beginning after December 31, 2015, may not exceed our distributions paid for the taxable year, including distributions paid the following year that are treated as paid in the current year. A corporate U.S. stockholder might be required to treat up to 20% of some capital gain distributions as ordinary income. Long-term capital gains are generally taxable at preferential rates in the case of stockholders who are individuals, estates, and trusts. Capital gains attributable to the sale of depreciable real property held for more than 12 months are subject to a 25% maximum federal income tax rate for taxpayers who are individuals, to the extent of previously claimed depreciation deductions (unrecaptured Section 1250 gains). See “— Requirements for Qualification as a REIT — Operational Requirements — Annual Distribution Requirement” for the treatment by U.S. stockholders of net long-term capital gains that we elect to retain and pay tax on.

Certain Dispositions of Our Common Stock. In general, capital gains recognized by individuals upon the sale or disposition of shares of our common stock will be subject to tax at the federal capital gains rate if such shares of common stock are held for more than 12 months, and will be taxed at ordinary income rates if such shares of common stock are held for 12 months or less. Gains recognized by stockholders that are corporations are subject to federal income tax at a current flat rate of 21%, whether or not classified as long-term capital gains. Capital losses recognized by a stockholder upon the disposition of a share of our common stock held for more than one year at the time of disposition will be considered long-term capital losses, and are generally available only to offset capital gain income of the stockholder but not ordinary income (except in the case of individuals, trusts and estates who may offset up to \$3,000 of ordinary income each year). In addition, any loss upon a sale or exchange of shares of common stock by a stockholder who has held such shares of common stock for six months or less, after applying holding period rules, will be treated as a long-term capital loss to the extent of distributions received from us that are required to be treated by the stockholder as long-term capital gain. In addition, under the so-called “wash sale” rules (as defined in the Code), all or a portion of any loss that a stockholder realizes upon a taxable disposition of shares of common stock may be disallowed if the stockholder purchases (including through our Reinvestment Plan) other shares of our stock (or stock substantially similar to our stock) within 30 days before or after the disposition.

If an investor recognizes a loss upon a subsequent disposition of our stock or other securities in an amount that exceeds a prescribed threshold, it is possible that the provisions of Treasury Regulations involving “reportable transactions” (as defined in the Code) could apply, with a resulting requirement to separately disclose the loss-generating transaction to the IRS. These regulations, though directed towards tax shelters, are broadly written and apply to transactions that would not typically be considered tax shelters. The Code imposes significant penalties for failure to comply with these requirements.

You should consult your tax advisor concerning any possible disclosure obligation with respect to the receipt or disposition of our stock or securities or transactions that we might undertake directly or indirectly. Moreover, you should be aware that we and other participants in the transactions in which we are involved (including their advisors) might be subject to disclosure or other requirements pursuant to these regulations, and that the failure to make such disclosures would result in substantial penalties.

Distributions we make and gain arising from the sale or exchange by a U.S. stockholder of our stock will not be treated as passive activity income. As a result, stockholders will not be able to apply any passive losses against income or gain relating to our stock. To the extent distributions we make do not constitute a return of capital or a long-term capital gain (unless you elect otherwise), they will be treated as investment income for purposes of computing the investment interest limitation.

Additional Medicare Contribution Tax. An additional tax of 3.8% generally will be imposed on the “net investment income” of U.S. stockholders who meet certain requirements and are individuals, estates or certain trusts. Among other items, “net investment income” generally includes gross income from dividends and net gain attributable to the disposition of certain property, such as shares of our common stock. In the case of individuals, this tax will only apply to the extent such individual’s modified adjusted gross income exceeds \$200,000 (\$250,000 for married couples filing a joint return and surviving spouses, and \$125,000 for married individuals filing a separate return). U.S. stockholders should consult their tax advisors regarding the possible applicability of this additional tax in their particular circumstances.

Information Reporting Requirements and Backup Withholding for U.S. Stockholders. As required, we will report to U.S. stockholders of our common stock and to the IRS the amount of distributions made or deemed made during each calendar year and the amount of tax withheld, if any. Under some circumstances, U.S. stockholders may be subject to backup withholding on payments made with respect to, or cash proceeds of a sale or exchange of, our common stock. Backup withholding will apply only if the stockholder:

- Fails to furnish its taxpayer identification number (which, for an individual, would typically be his or her Social Security number);
- Furnishes an incorrect taxpayer identification number;
- Is notified by the IRS that the stockholder has failed to properly report payments of interest or dividends and is subject to backup withholding; or
- Under some circumstances, fails to certify, under penalties of perjury, that it has furnished a correct taxpayer identification number and has not been notified by the IRS that the stockholder is subject to backup withholding for failure to report interest and dividend payments or has been notified by the IRS that the stockholder is no longer subject to backup withholding for failure to report those payments.

Backup withholding will not apply with respect to payments made to some stockholders, such as corporations in certain circumstances and tax-exempt organizations. Backup withholding is not an additional tax. Rather, the amount of any backup withholding with respect to a payment to a U.S. stockholder will be allowed as a credit against the U.S. stockholder's U.S. federal income tax liability and may entitle the U.S. stockholder to a refund, provided that the required information is furnished to the IRS. U.S. stockholders should consult their tax advisors regarding their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Cost Basis Reporting. Treasury Regulations require us to report the cost basis and gain or loss to a stockholder upon the sale or liquidation of "covered shares." For purposes of these Treasury Regulations, all shares acquired by non-tax exempt stockholders through the Reinvestment Plan will be considered "covered shares" and will be subject to the applicable reporting requirements.

Upon the sale or liquidation of "covered shares," a broker must report both the cost basis of the shares and the gain or loss recognized on the sale of those shares to the stockholder and to the IRS on Form 1099-B. In addition, stockholders that are S-corporations are no longer exempt from Form 1099-B reporting and shares purchased by an S-corporation are "covered shares" under the Treasury Regulations. If we take an organizational action such as a stock split, merger, or acquisition that affects the cost basis of "covered shares," we will report to each stockholder and to the IRS via our website a description of any such action and the quantitative effect of that action on the cost basis on an information return.

We have elected the first in, first out (FIFO) method as the default for calculating the cost basis and gain or loss upon the sale or liquidation of "covered shares". A non-tax exempt stockholder may elect a different method of computation until the settlement date of the sold or liquidated shares. We suggest that you consult with your tax advisor to determine the appropriate method of accounting for your investment.

Treatment of Tax-Exempt Stockholders

Tax-exempt entities, including employee pension benefit trusts and individual retirement accounts, generally are exempt from U.S. federal income taxation. These entities are subject to taxation, however, on any UBTI, as defined in the Code. The IRS has issued a published ruling that distributions from a REIT to a tax-exempt pension trust do not constitute UBTI. Although rulings are merely interpretations of law by the IRS and may be revoked or modified, based on this analysis, indebtedness incurred by us or by our operating partnership in connection with the acquisition of a property should not cause any income derived from the property to be treated as UBTI upon the distribution of those amounts as dividends to a tax-exempt U.S. stockholder of our common stock. A tax-exempt entity that incurs indebtedness to finance its purchase of our common stock, however, will be subject to UBTI under the debt-financed income rules.

In certain circumstances, a pension trust that owns more than 10% of our stock could be required to treat a percentage of the dividends as UBTI if we are a “pension-held REIT.” We will not be a pension-held REIT unless (i) we are required to look through one or more of our pension trust stockholders in order to satisfy the REIT “closely-held” test, and (ii) either (A) one pension trust owns more than 25% of the value of our stock, or (B) one or more pension trusts, each individually holding more than 10% of the value of our stock, collectively owns more than 50% of the value of our stock. Certain restrictions on ownership and transfer of our stock generally should prevent a tax-exempt entity from owning more than 10% of the value of our stock and generally should prevent us from becoming a pension-held REIT. Tax-exempt stockholders are urged to consult their tax advisors regarding the federal, state, local and foreign income and other tax consequences of owning our common stock.

For social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans exempt from federal income taxation under sections 501(c)(7), (c)(9), (c)(17) and (c)(20) of the Code, respectively, income from an investment in our shares will generally constitute UBTI unless the stockholder in question is able to deduct amounts set aside or placed in reserve for certain purposes so as to offset the UBTI generated. Any such organization that is a prospective stockholder should consult its own tax advisor concerning these set aside and reserve requirements, and regarding the treatment of distributions to such organization.

Special Tax Considerations for Non-U.S. Stockholders

The rules governing U.S. federal income taxation of non-resident alien individuals, foreign corporations, foreign partnerships and other foreign stockholders, which we refer to collectively as “Non-U.S. holders,” are complex. The following discussion is intended only as a summary of these rules. Non-U.S. holders should consult with their own tax advisors to determine the impact of U.S. federal, state and local income tax laws on an investment in our common stock, including any reporting requirements as well as the tax treatment of the investment under the tax laws of their home country.

Ordinary Dividends. The portion of distributions received by Non-U.S. holders payable out of our E&P which are not attributable to our capital gains and which are not effectively connected with a U.S. trade or business of the Non-U.S. holder will be subject to U.S. withholding tax at the rate of 30%, unless reduced or eliminated by treaty. Reduced treaty rates and other exemptions are not available to the extent that income is attributable to excess inclusion income allocable to the Non-U.S. holder. Accordingly, we will withhold at a rate of 30% on any portion of a dividend that is paid to a Non-U.S. holder and attributable to that holder’s share of our excess inclusion income. As required by IRS guidance, we intend to notify our stockholders if a portion of a dividend paid by us is attributable to excess inclusion income.

In general, Non-U.S. holders will not be considered to be engaged in a U.S. trade or business solely as a result of their ownership of our common stock. In cases where the distribution income from a Non-U.S. holder’s investment in our common stock is, or is treated as, effectively connected with the Non-U.S. holder’s conduct of a U.S. trade or business, the Non-U.S. holder generally will be subject to U.S. tax at graduated rates, in the same manner as U.S. stockholders are taxed with respect to such distributions, such income must generally be reported on a U.S. income tax return filed by or on behalf of the Non-U.S. holder, and the income may also be subject to the 30% branch profits tax in the case of a Non-U.S. holder that is a corporation.

Non-Dividend Distributions. Unless our common stock constitutes a U.S. real property interest (“USRPI”), distributions by us which are not distributions out of our E&P will not be subject to U.S. federal income tax. If it cannot be determined at the time at which a distribution is made whether or not the distribution will exceed current and accumulated E&P, the distribution will be subject to withholding at the rate applicable to distributions. However, the Non-U.S. holder may seek a refund from the IRS of any amounts withheld if it is subsequently determined that the distribution was, in fact, in excess of our current and accumulated E&P. If our common stock constitutes a USRPI, as described below, distributions by us in excess of the sum of our E&P plus the stockholder’s basis in shares of our common stock will be taxed under the Foreign Investment in Real Property Tax Act of 1980 (“FIRPTA”) at the rate of tax, including any applicable capital gains rates, that would apply to a U.S. stockholder of the same type (e.g., an individual or a corporation, as the case may be), and the collection of the tax will be enforced by a refundable withholding at a rate of 15% of the amount by which the distribution exceeds the stockholder’s share of our E&P.

Capital Gain Distributions. Under FIRPTA, subject to the following exception, distributions that are sourced from capital gains from dispositions of USRPIs will be treated as income that is effectively connected with a U.S. trade or business of the Non-U.S. holder without regard to whether the distribution is designated as a capital gain distribution and shall be subject to a 21% withholding tax. As an exception, a distribution sourced from capital gains from dispositions of USRPIs will generally not be treated as income that is effectively connected with a U.S. trade or business, and will instead be treated the same as an ordinary distribution from us (see “— Special Tax Considerations for Non-U.S. Stockholders — Ordinary Dividends”), if (i) the capital gain distribution is received with respect to a class of stock that is regularly traded on an established securities market located in the U.S., and (ii) the recipient Non-U.S. holder does not own more than 10% of that class of stock at any time during the taxable year in which the capital gain distribution is received. We do not anticipate our common stock satisfying the “regularly traded” requirement, and in such cases distributions that are sourced from capital gains from dispositions in USRPIs generally would be taxable to a Non-U.S. holder under FIRPTA. Distributions subject to FIRPTA may also be subject to a 30% branch profits tax in the hands of a Non-U.S. holder that is a corporation. A distribution is not a USRPI capital gain if we held the underlying asset solely as a creditor. Capital gain distributions received by a Non-U.S. holder from a REIT that are not USRPI capital gains are generally not subject to U.S. income tax, but may be subject to withholding tax. Distributions to “qualified foreign pension funds” or entities all of the interests of which are held by “qualified foreign pension funds” are exempt from FIRPTA. Non-U.S. holders should consult their tax advisors regarding the application of these rules.

Estate Tax. If our stock is owned or treated as owned by an individual who is not a citizen or resident (as specially defined for U.S. federal estate tax purposes) of the U.S. at the time of such individual’s death, the stock will be includable in the individual’s gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise, and may therefore be subject to U.S. federal estate tax.

Dispositions of Our Common Stock. Unless our common stock constitutes a USRPI, a sale of our common stock by a Non-U.S. holder generally will not be subject to U.S. taxation under FIRPTA. Our common stock will not be treated as a USRPI if less than 50% of our assets throughout a prescribed testing period consist of interests in real property located within the U.S., excluding, for this purpose, interests in real property solely in a capacity as a creditor.

Even if the foregoing test is not met, our common stock nonetheless will not constitute a USRPI if we are a “domestically controlled REIT.” A “domestically controlled REIT” is a REIT in which, at all times during a specified testing period, less than 50% in value of its shares of common stock is held directly or indirectly by Non-U.S. holders. We currently anticipate that we will be a domestically controlled REIT and, therefore, the sale of our common stock should not be subject to taxation under FIRPTA. However, we cannot assure you that we are or will continue to be a domestically controlled REIT.

If we were not a domestically controlled REIT, whether a Non-U.S. holder’s sale of our common stock would be subject to tax under FIRPTA as a sale of a USRPI would depend on whether our common stock were “regularly traded” on an established securities market and on the size of the selling stockholder’s interest in us.

In addition, even if we are a domestically controlled REIT, upon disposition of our common stock (subject to the exception applicable to “regularly traded” stock described above), a Non-U.S. holder may be treated as having gain from the sale or exchange of a USRPI if the Non-U.S. holder (i) disposes of our common stock within a 30-day period preceding the ex-dividend date of distribution, any portion of which, but for the disposition, would have been treated as gain from the sale or exchange of a USRPI and (ii) acquires, or enters into a contract or option to acquire, other shares of our common stock within 30 days after such ex-dividend date.

If the gain on the sale of shares of common stock were subject to taxation under FIRPTA, a Non-U.S. holder would be subject to the same treatment as a U.S. stockholder with respect to the gain, subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of non-resident alien individuals.

Gain from the sale of our common stock that would not otherwise be subject to FIRPTA will nonetheless be taxable in the U.S. to a Non-U.S. holder in two cases: (i) if the Non-U.S. holder's investment in our common stock is effectively connected with a U.S. trade or business conducted by such Non-U.S. holder, the Non-U.S. holder will be subject to the same treatment as a U.S. stockholder with respect to such gain; or (ii) if the Non-U.S. holder is a nonresident alien individual who was present in the U.S. for 183 days or more during the taxable year and has a "tax home" (as defined in the Code) in the U.S., the nonresident alien individual will be subject to a 30% tax on the individual's capital gain.

Information Reporting Requirements and Backup Withholding for Non-U.S. Holders. Non-U.S. holders should consult their tax advisors with regard to U.S. information reporting and backup withholding requirements under the Code. We will provide you with an annual Form 1042-S, if required, by March 15 following the end of our fiscal year.

Statement of Share Ownership

We are required to demand annual written statements from the record holders of designated percentages of our common stock disclosing the actual owners of the shares of common stock. Any record stockholder who, upon our request, does not provide us with required information concerning actual ownership of the shares of common stock is required to include specified information relating to his or her shares of common stock in his or her federal income tax return. We also must maintain, within the Internal Revenue District in which we are required to file our federal income tax return, permanent records showing the information we have received about the actual ownership of our common stock and a list of those Persons failing or refusing to comply with our demand.

Federal Income Tax Aspects of the Operating Partnership

The following discussion summarizes certain federal income tax considerations applicable to our investment in the operating partnership. This discussion applies only if, and during the period that, the operating partnership is treated as a partnership instead of a disregarded entity for federal income tax purposes. During the period that (i) we own 100% of the general and limited partnership interests in the operating partnership, either directly or indirectly through CHP GP, LLC and (ii) CHP GP, LLC has not elected to be taxed as a corporation for federal income tax purposes, the operating partnership will be disregarded as an entity separate from us for federal income tax purposes, and all of the operating partnership's assets, liabilities and activities will be treated as our assets, liabilities and activities for federal income tax purposes. We do not know if or when additional interests in the operating partnership will be issued to a third party in a manner that would cause the operating partnership to cease being treated as a disregarded entity for federal income tax purposes. The discussion does not cover state or local tax laws or any federal tax laws other than income tax laws.

Classification as a Partnership. We will be entitled to include in our income a distributive share of the operating partnership's income and to deduct our distributive share of the operating partnership's losses only if the operating partnership is classified for federal income tax purposes as a partnership, rather than as a corporation or an association taxable as a corporation. Under applicable Treasury Regulations ("Check-the-Box-Regulations"), an unincorporated domestic entity with at least two members may elect to be classified either as an association taxable as a corporation or as a partnership. If the entity fails to make an election, it generally will be treated as a partnership for federal income tax purposes. The operating partnership intends to be classified as a partnership for federal income tax purposes and will not elect to be treated as an association taxable as a corporation under the Check-the-Box-Regulations.

Even though the operating partnership will not elect to be treated as an association for U.S. federal income tax purposes, it may be taxed as a corporation if it is deemed to be a "publicly traded partnership." A "publicly traded partnership" is a partnership whose interests are traded on an established securities market or are readily tradable on a secondary market or the substantial equivalent thereof. Under applicable Treasury Regulations ("PTP Regulations"), limited safe harbors from the definition of a publicly traded partnership are provided. Pursuant to one of those safe harbors ("Private Placement Exclusion"), interests in a partnership will not be treated as readily tradable on a secondary market or the substantial equivalent thereof if (i) all interests in the partnership were issued in a transaction (or transactions) that were not required to be registered under the Securities Act, and (ii) the partnership does not have more than 100 partners at any time during the partnership's taxable year. In determining the number of partners in a partnership, a person owning an interest in a flow-through entity (including a partnership, grantor trust or S corporation) that owns an interest in the partnership is treated as a partner in such partnership only if (i) substantially all of the value of the owner's interest in the flow-through entity is attributable to the flow-through entity's direct or

indirect interest in the partnership, and (ii) a principal purpose of the use of the flow-through entity is to permit the partnership to satisfy the 100 partner limitation. We and the operating partnership believe and currently intend to take the position that the operating partnership should not be classified as a publicly traded partnership because (i) operating partnership units are not traded on an established securities market, and (ii) operating partnership units should not be considered readily tradable on a secondary market or the substantial equivalent thereof. In addition, the operating partnership presently qualifies for the Private Placement Exclusion.

Even if the operating partnership were considered a publicly traded partnership under the PTP Regulations, the operating partnership should not be treated as a corporation for U.S. federal income tax purposes as long as 90% or more of its gross income consists of “qualifying income” under section 7704(d) of the Code. In general, “qualifying income” includes interest, dividends, real property rents (as defined by section 856 of the Code) and gain from the sale or disposition of real property. If the operating partnership were characterized as a publicly traded partnership even if it were not taxable as a corporation because of the qualifying income exception, however, holders of operating partnership units would be subject to special rules under section 469 of the Code. Under such rules, each holder of operating partnership units would be required to treat any loss derived from the operating partnership separately from any income or loss derived from any other publicly traded partnership, as well as from income or loss derived from other passive activities. In such case, any net losses or credits attributable to the operating partnership which are carried forward may only be offset against future income of the operating partnership. Moreover, unlike other passive activity losses, suspended losses attributable to the operating partnership would only be allowed upon the complete disposition of the operating partnership unit holder’s entire interest in the operating partnership.

We have not requested, and do not intend to request, a ruling from the IRS that the operating partnership will be classified as a partnership for federal income tax purposes.

If for any reason the operating partnership were taxable as a corporation, rather than a partnership, for federal income tax purposes, we would not be able to qualify as a REIT, unless we are eligible for relief from the violation pursuant to relief provisions described above. See “— Requirements for Qualification as a REIT — Organizational Requirements” and “Requirements for Qualification as a REIT—Operational Requirements—Asset Tests” above for discussion of the effect of the failure to satisfy the REIT tests for a taxable year, and of the relief provisions.

In addition, any change in the operating partnership’s status for tax purposes might be treated as a taxable event, in which case we might incur a tax liability without any related cash distribution. Further, items of income and deduction of the operating partnership would not pass through to its partners, and its partners would be treated as stockholders for tax purposes. The operating partnership would be required to pay income tax at corporate tax rates on its net income, and distributions to its partners would constitute distributions that would not be deductible in computing the operating partnership’s taxable income.

Income Taxation of the Operating Partnership and Its Partner. A partnership generally is not a taxable entity for federal income tax purposes. As a partner in the operating partnership, we will be required to take into account our allocable share of the operating partnership’s income, gains, losses, deductions and credits for any taxable year of the operating partnership ending within or with our taxable year, without regard to whether we have received or will receive any distributions from the operating partnership.

Operating Partnership Allocations. Although a partnership agreement generally determines the allocation of income and losses among partners, such allocations will be disregarded for tax purposes if they do not comply with the provisions of section 704(b) of the Code and the Treasury Regulations promulgated thereunder. If an allocation is not recognized for federal income tax purposes, the item subject to the allocation will be reallocated in accordance with the partner’s interests in the partnership, which will be determined by taking into account all of the facts and circumstances relating to the economic arrangement of the partners with respect to such item. The operating partnership’s allocations of taxable income and loss are intended to comply with the requirements of section 704(b) of the Code and the Treasury Regulations promulgated thereunder.

Tax Allocations With Respect to Contributed Properties. Pursuant to section 704(c) of the Code, income, gain, loss and deduction with respect to property that is contributed to a partnership in exchange for an interest in the partnership must, for federal income tax purposes, be shared among the partners to take account of the unrealized gain or unrealized loss associated with the property at the time of the contribution. The amount of unrealized gain or unrealized loss is generally equal to the difference between the fair market value of the contributed property at the time of contribution and the adjusted tax basis of such property at the time of contribution. Under applicable Treasury Regulations, partnerships are required to use a reasonable method for allocating items subject to section 704(c) of the Code, and several reasonable allocation methods are described therein.

Under the operating partnership agreement, subject to exceptions applicable to limited partnership interests, depreciation or amortization deductions of the operating partnership generally is allocated among the partners in accordance with their respective interests in the operating partnership, except to the extent that the operating partnership is required under section 704(c) of the Code to use a different method for allocating depreciation deductions attributable to its properties. In addition, gain or loss on the sale of a property that has been contributed to the operating partnership will be specially allocated to the contributing partner to the extent of any built-in gain or loss with respect to the property for federal income tax purposes. It is possible that we may (i) be allocated lower amounts of depreciation deductions for tax purposes with respect to contributed properties than would be allocated to us if each such property were to have a tax basis equal to its fair market value at the time of contribution and (ii) be allocated taxable gain in the event of a sale of such contributed properties in excess of the economic profit allocated to us as a result of such sale. These allocations may cause us to recognize taxable income in excess of cash proceeds received by us, which might adversely affect our ability to comply with the REIT distribution requirements, although we do not anticipate that this event will occur. The foregoing principles also will affect the calculation of our E&P for purposes of determining the portion of our distributions that are taxable as a dividend. The allocations described in this paragraph may result in a higher portion of our distributions being taxed as a dividend than would have occurred had we purchased such properties for cash.

Basis in Operating Partnership Interest. The adjusted tax basis of our partnership interest in the operating partnership generally is equal to the amount of cash and the basis of any other property contributed to the operating partnership by us, (i) increased by (A) our allocable share of the operating partnership's income and (B) our allocable share of indebtedness of the operating partnership, and (ii) reduced, but not below zero, by (A) our allocable share of the operating partnership's loss and (B) the amount of cash distributed to us, including constructive cash distributions resulting from a reduction in our share of indebtedness of the operating partnership.

If the allocation of our distributive share of the operating partnership's loss would reduce the adjusted tax basis of our partnership interest in the operating partnership below zero, the recognition of the loss will be deferred until such time as the recognition of the loss would not reduce our adjusted tax basis below zero. If a distribution from the operating partnership or a reduction in our share of the operating partnership's liabilities would reduce our adjusted tax basis below zero, that distribution, including a constructive distribution, will constitute taxable income to us. The gain realized by us upon the receipt of any such distribution or constructive distribution would normally be characterized as capital gain, and if our partnership interest in the operating partnership has been held for longer than the long-term capital gain holding period (currently one year), the distribution would constitute long-term capital gain.

Depreciation Deductions Available to the Operating Partnership. The operating partnership used a portion of contributions we made from Net Offering Proceeds to acquire interests in properties and securities. To the extent that the operating partnership acquires properties or securities for cash, the operating partnership's initial basis in such properties for federal income tax purposes generally will be equal to the purchase price paid by the operating partnership. The operating partnership depreciates each depreciable property for federal income tax purposes under the ADS. Under ADS, the operating partnership generally depreciates buildings and improvements over a 40-year recovery period using a straight-line method and a mid-month convention and will depreciate furnishings and equipment over a 10-year recovery period using a straight-line method and a half-year convention. To the extent that properties are contributed to the operating partnership in exchange for units of the operating partnership, the operating partnership's initial basis in each such property for federal income tax purposes should be the same as the transferor's basis in that property on the date of contribution to the operating partnership. Although the law is not entirely clear, the operating partnership generally depreciates such depreciable property for federal income tax purposes over the same remaining useful lives and under the same methods used by the transferors.

Sale of the Operating Partnership's Property. Generally, any gain realized by the operating partnership on the sale of property held for more than one year will be long-term capital gain, except for any portion of such gain that is treated as depreciation or cost recovery recapture. Our share of any gain realized by the operating partnership on the sale of any property held by the operating partnership as inventory or other property held primarily for sale to customers in the ordinary course of the operating partnership's trade or business will be treated as income from a prohibited transaction that is subject to a 100% tax. We, however, do not presently intend to acquire or hold or allow the operating partnership to acquire or hold any property that represents inventory or other property held primarily for sale to customers in the ordinary course of our or the operating partnership's trade or business.

Partnership Audit Rules

The Bipartisan Budget Act of 2015 ("Budget Act") changes the rules applicable to U.S. federal income tax audits of partnerships. Under the Budget Act rules (which generally took effect for taxable years beginning after December 31, 2017), among other changes and subject to certain exceptions, any audit adjustment to items of income, gain, loss, deduction, or credit of a partnership (and any partner's distributive share thereof) is determined, and taxes, interest, or penalties attributable thereto are assessed and collected, at the partnership level. It is possible that the Budget Act rules could result in partnerships in which we directly or indirectly invest being required to pay additional taxes, interest and penalties as a result of an audit adjustment, and we, as a direct or indirect partner of these partnerships, could be required to bear the economic burden of those taxes, interest, and penalties even though we, as a REIT, may not otherwise have been required to pay additional corporate-level taxes as a result of the related audit adjustment. The changes created by the Budget Act rules are sweeping and in many respects dependent on the promulgation of future regulations or other guidance by the U.S. Department of the Treasury. Prospective investors are urged to consult their tax advisors with respect to these changes and their potential impact on their investment in our shares.

Other Tax Considerations

Payments to Certain Foreign Financial Entities and Other Foreign Entities. Withholding tax at a rate of 30% will be imposed on certain payments to you or certain foreign financial institutions (including investment funds) and other non-U.S. entities receiving payments on your behalf, including distributions in respect of shares of our stock, if you or such institutions fail to comply with certain due diligence and other reporting rules as set forth in Treasury Regulations. Accordingly, the entity through which shares of our stock are held will affect the determination of whether such withholding is required. Withholding currently applies to payments of dividends and the IRS has advised that future guidance may provide that certain other payments made to or by certain foreign financial institutions may be subject to a 30% federal withholding tax. Stockholders that are otherwise eligible for an exemption from, or reduction of, U.S. withholding taxes with respect to such dividends will be required to seek a refund from the IRS to obtain the benefit of such exemption or reduction. Additional requirements and conditions may be imposed pursuant to an intergovernmental agreement, if and when entered into, between the U.S. and such institution's home jurisdiction. We will not pay any additional amounts to any stockholders in respect of any amounts withheld. You are encouraged to consult with your tax advisor regarding U.S. withholding taxes and the application of the Treasury Regulations in light of your particular circumstances.

Legislative or Other Actions Affecting REITs. Current and prospective holders of our stock should recognize the present federal income tax treatment of an investment in our stock may be modified by legislative, judicial or administrative action at any time and that any such action may affect investments and commitments previously made. For example, the Tax Act, which the U.S. President signed into law on December 22, 2017, significantly changes the U.S. federal income tax system, including rules that directly and indirectly affect REITs and their stockholders. The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Department of the Treasury. Changes to the federal tax laws and interpretations thereof could adversely affect an investment in our stock.

State, Local and Foreign Taxes. We and our subsidiaries and stockholders may be subject to state, local or foreign taxation in various jurisdictions including those in which we or they transact business, own property or reside. We own properties located in numerous jurisdictions, and may be required to file tax returns in some or all of those jurisdictions. Our state, local or foreign tax treatment and that of our stockholders may not conform to the federal income tax treatment discussed above. To the extent, if any, that we or our subsidiaries own assets, directly or indirectly, or conduct operations in foreign jurisdictions, we may be subject to foreign tax systems. Our favorable tax treatment in the U.S. as a REIT may not be recognized by foreign jurisdictions where we may be treated as a foreign corporation or other type of entity subject to a variety of taxes, such as income, corporate, trade, local and capital taxes, and distributions from such operations may be subject to withholding both as to dividends and interest paid to us.

Although we will seek to reduce the foreign taxes payable on foreign operations, it is unlikely that we will be able to mitigate totally such taxes, which could be significant. To the extent we incur such foreign taxes; we will receive reduced amounts from foreign operations and will have less cash available for distribution to our stockholders. Further, the foreign taxes cannot be passed through to our stockholders as a foreign tax credit and we cannot generally make effective use of foreign tax credits. As a result, we expect that neither we nor our stockholders will be able to reduce U.S. tax liability on account of our payment of foreign taxes. Accordingly, foreign taxes would impact our operations as an additional cost. Furthermore, the fundamental changes made by the Tax Act to the U.S. international tax system could significantly impact our foreign tax exposure if we, or our subsidiaries, were to make investments in foreign jurisdictions. Prospective investors should consult their tax advisors regarding the application and effect of state, local and foreign income and other tax laws on an investment in our stock.

Available Information

CNL Financial Group, LLC (“Sponsor” or “CNL”) maintains a web site at www.cnlhealthcareproperties.com containing additional information about our business, and a link to the SEC web site (www.sec.gov). We make available free of charge on our web site, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practical after we file such material, or furnish it to, the SEC. You may read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site (www.sec.gov) where you can search for annual, quarterly and current reports, proxy and information statements, and other information regarding us and other public companies.

The contents of our web site are not incorporated by reference in, or otherwise a part of, this report.

Item 1A. RISK FACTORS

Valuation Related Risks

In determining the Company's estimated NAV per share, the Company primarily relied upon a valuation of the Company's portfolio of properties and debt as of December 31, 2019. Valuations and appraisals of the Company's properties and outstanding debt are estimates of fair value and may not necessarily correspond to realizable value upon the sale of such properties. Therefore, the Company's estimated NAV per share may not reflect the amount that would be realized upon a sale of each of the Company's properties.

For the purposes of calculating the Company's estimated NAV per share, the Company retained an independent third-party valuation firm as valuation expert to determine the Company's estimated NAV per share and the value of the Company's properties and debt as of December 31, 2019. The valuation methodologies used to estimate the NAV of the Company's shares as well as the value of the Company's properties and outstanding debt involved certain subjective judgments, including but not limited to, discounted cash flow analyses and the direct capitalization approach for wholly owned and partially owned properties. Ultimate realization of the value of an asset depends to a great extent on economic and other conditions beyond the Company's control. Further, valuations do not necessarily represent the price at which an asset would sell, since market prices of assets can only be determined by negotiation between a willing buyer and seller. Therefore, the valuations of the Company's properties and the Company's investments in real estate-related assets may not correspond to the realizable value upon a sale of those assets.

Company Related Risks

The Company and its Advisor have limited operating histories and there is no assurance the Company will achieve its goals.

The Company and the Advisor have limited operating histories. To be successful, the Advisor must, among other things:

- attract, integrate, motivate and retain qualified personnel to manage the Company's day-to-day operations;
- respond to competition for the Company's targeted real estate properties; and
- maintain its operational structure to support the Company's business.

There can be no assurance that the Advisor will succeed in achieving these goals.

In prior periods the Company has not had sufficient cash available from operations to pay distributions and therefore has paid distributions from other sources, including the net proceeds of the Company's offering. The Company may continue to pay distributions from sources other than its cash flow from operations or funds from operations, and any such distributions may negatively impact the value of the Company's stockholders' investment and be dilutive to its stockholders.

Prior to 2013, the Company generated little, if any, cash flow from operations or funds from operations ("FFO"). Further, investments by the Company in development or redevelopment projects, or in properties requiring significant capital, may affect the Company's ability to make cash distributions. The Company's organizational documents permit it to make distributions from any source, such as from the proceeds of the Company's offerings (including its Reinvestment Plan), cash resulting from a deferral or waiver of asset management fees or expense reimbursements, and borrowings, which may be unsecured or secured by the Company's assets, in anticipation of future net operating cash flow. The Company has not established any limit on the extent to which the Company may use alternate sources, including borrowings or proceeds of the Company's offerings, to pay distributions. Commencing in the fourth quarter of 2011 through the fourth quarter of 2017, the Company made cash distributions from offering proceeds, which were dilutive to the Company's stockholders. To the extent the Company makes cash distributions, or a portion thereof, from sources other than operating cash flow or FFO, the book value per share of the Company's common stock may decline, which might cause the Company to reduce the offering price in future offerings, if any, and there can be no assurance that the Company will be able to sustain distributions at that level. Further, distributions that exceed cash flows from operations or FFO may not be sustainable. Distributions will be taxable as ordinary income to the stockholders to the extent such

distributions are made from the Company's current and accumulated E&P. In addition, to the extent distributions exceed E&P calculations on a tax basis, a stockholder's basis in the Company's stock will be reduced and, to the extent distributions exceed a stockholder's basis, the stockholder may recognize a capital gain in the future.

There can be no assurance that the Company will be able to achieve expected cash flows necessary to pay or maintain distributions at any particular level or that distributions will increase over time.

There are many factors that can affect the availability and timing of distributions to stockholders. Distributions generally will be based upon such factors as the amount of cash available or anticipated to be available from real estate investments, current and projected cash requirements and tax considerations. Distributions may be limited in whole or in part by covenants of the Company's senior unsecured revolving line of credit ("Revolving Credit Facility") or other loans. Because the Company receives income from property operations and interest or rents at various times during the Company's fiscal year, distributions paid may not reflect the Company's income earned in that particular distribution period. The amount of cash available for distributions is affected by many factors, such the income from the Company's real estate investments, the Company's operating expense levels and many other variables. Actual cash available for distribution may vary substantially from estimates. The Company's actual results may differ significantly from the assumptions used by the Company's board of directors in establishing the distribution rates to be paid on its shares.

The Company cannot assure investors that:

- rents or operating income from the Company's properties will remain stable or increase;
- tenants will not default under or terminate their leases; or
- development properties will be developed on budget or generate income once stabilized.

Many of the factors that can affect the availability and timing of cash distributions to stockholders are beyond the Company's control, and a change in any one factor could adversely affect the Company's ability to pay distributions. For instance:

- (1) Cash available for distributions may decrease if the Company is required to spend money to correct defects or to make improvements to properties.
- (2) Cash available for distributions may decrease if the assets the Company acquires have lower yields than expected.
- (3) Federal income tax laws require REITs to distribute at least 90% of their taxable income to stockholders each year. The Company has elected to be treated as a REIT for tax purposes, and this limits the earnings that the Company may retain for corporate growth, such as asset acquisition, development or expansion, and will make the Company more dependent upon additional debt or equity financing than corporations that are not REITs. If the Company borrows more funds in the future, more of the Company's operating cash will be needed to make debt payments and cash available for distributions may decrease.
- (4) The payment of principal and interest required to service the debt resulting from the Company's policy to use leverage to acquire assets may leave the Company with insufficient cash to pay distributions.
- (5) As the Company has elected to be taxed as a REIT, the Company may pay distributions to the Company's stockholders to comply with the distribution requirements of the Code, and to eliminate, or at least minimize, exposure to federal income taxes and the nondeductible REIT excise tax. Differences in timing between the receipt of income and the payment of expenses, and the effect of required debt payments, could require the Company to borrow funds on a short term basis to meet the distribution requirements that are necessary to achieve the tax benefits associated with qualifying as a REIT.

If the Company decides to list the Company's common stock on a national exchange, it may wish to lower the Company's distribution rate in order to optimize the price at which the Company's shares would trade. In addition, subject to the applicable REIT rules, the Company's board of directors, in its discretion, may retain any portion of the

Company's cash on hand or use offering proceeds for capital needs and other corporate purposes. Future distribution levels are subject to adjustment based upon any one or more of the risk factors set forth in this prospectus, as well as other factors that the Company's board of directors may, from time to time deem relevant to consider when determining an appropriate common stock distribution. As of December 31, 2018, the Company has experienced cumulative losses and cannot assure investors that it will generate or have sufficient cash available to continue paying distributions to investors at any specified level or that distributions the Company makes may not be decreased or be eliminated in the future.

Because the Company relies on affiliates of CNL for advisory services, if these affiliates or their executive officers and other key personnel are unable to meet their obligations to the Company, the Company may be required to find alternative providers of these services, which could disrupt the Company's business.

CNL, through one or more of its affiliates or subsidiaries, owns and controls the Sponsor and the Advisor, as well as CNL Securities Corp., the managing dealer of the Company's offerings ("Managing Dealer"). In the event that any of these affiliates are unable to meet their obligations to the Company, the Company might be required to find alternative service providers, which could disrupt the Company's business by causing delays and/or increasing the Company's costs.

Further, the Company's success depends to a significant degree upon the contributions of Stephen H. Mauldin, the Company's president and chief executive officer, Ixchell C. Duarte, the Company's chief financial officer, senior vice president and treasurer, and John F. Starr, the Company's chief operating officer, each of whom would be difficult to replace. If any of these key personnel were to cease their affiliation with the Company or the Company's affiliates, the Company may be unable to find suitable replacement personnel and the Company's operating results could suffer. In addition, the Company has entered into an advisory agreement with the Advisor which contains a non-solicitation and non-hire clause prohibiting the Company or the Company's operating partnership from (i) soliciting or encouraging any person to leave the employment of the Advisor; or (ii) hiring on the Company's behalf or on behalf of the Company's operating partnership any person who has left the employment of the Advisor for one year after such departure. The Company believes that its future success depends in large part upon the Advisor's ability to hire and retain highly skilled managerial, operational and marketing personnel. Competition for such personnel is intense, and the Advisor may be unsuccessful in attracting and retaining such skilled personnel. The Company does not maintain key person life insurance on any of its officers.

Any adverse changes in CNL's financial health, the public perception of CNL or the Company's relationship with its sponsor or its affiliates could hinder the Company's operating performance and the return on an investment.

Under certain circumstances, the Advisor has committed to accept unvested restricted common stock in lieu of certain fees and expenses payable to it in order to provide additional cash to support of the Company's distributions to investors. The Advisor may terminate its expense support obligations upon 30 days' notice to the Company. If such expense support is terminated by the Advisor due to its or CNL's financial health, the Company's results from operations, cash from operations and FFO would all be negatively impacted and the Company's ability to pay distributions to investors would be adversely impacted.

In addition, any deterioration in the perception of CNL in the broker-dealer and financial advisor industries could result in an adverse effect on the Company's ability to acquire assets and obtain financing from third parties on favorable terms.

An investment return may be reduced if the Company is required to register as an investment company under the Investment Company Act.

The Company is not registered, and does not intend to register the Company or any of its subsidiaries, as an investment company under the Investment Company Act. If the Company or any of its subsidiaries become obligated to register as an investment company, the registered entity would have to comply with a variety of substantive requirements under the Investment Company Act imposing, among other things:

- limitations on capital structure;
- restrictions on specified investments;

- prohibitions on transactions with affiliates; and
- compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly change the Company's operations.

The Company believes it conducts its operations, directly and through the Company's wholly and majority owned subsidiaries, so that neither the Company nor any of its subsidiaries will be an investment company and, therefore, will not be required to register as an investment company under the Investment Company Act. Under Section 3(a)(1)(A) of the Investment Company Act, a company is deemed to be an "investment company" if it is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities. Under Section 3(a)(1)(C) of the Investment Company Act, a company is deemed to be an "investment company" if it is engaged, or proposes to engage, in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire "investment securities" having a value exceeding 40% of the value of its total assets (exclusive of government securities and cash items) on an unconsolidated basis, which the Company refer to as the "40% Test."

Since the Company is primarily engaged in the business of acquiring real estate, the Company believes that the Company and most, if not all, of the Company's wholly and majority-owned subsidiaries will not be considered investment companies under either Section 3(a)(1)(A) or Section 3(a)(1)(C) of the Investment Company Act. If the Company or any of the Company's wholly or majority-owned subsidiaries would ever inadvertently fall within one of the definitions of "investment company," the Company intends to rely on the exception provided by Section 3(c)(5)(C) of the Investment Company Act.

Under Section 3(c)(5)(C), a company generally must maintain at least 55% of its assets directly in what are deemed "qualifying" real estate assets and at least 80% of the entity's assets in such qualifying assets and in a broader category of what are deemed "real estate-related" assets to qualify for this exception.

The method the Company uses to classify its assets for purposes of the Investment Company Act is based in large measure upon no-action positions taken by the Commission staff in the past. These no-action positions were issued in accordance with factual situations that may be substantially different from the factual situations the Company may face, and a number of these no-action positions were issued more than ten years ago. No assurance can be given that the Commission staff will concur with the Company's classification of the Company's assets. In addition, the Commission staff may, in the future, issue further guidance that may require the Company to re-classify the Company's assets for purposes of qualifying for an exclusion from regulation under the Investment Company Act. If the Company is required to re-classify its assets, the Company may no longer be in compliance with the exception from the definition of an "investment company" provided by Section 3(c)(5)(C) of the Investment Company Act.

A change in the value of any of the Company's assets could cause the Company or one or more of its wholly or majority-owned subsidiaries to fall within the definition of "investment company" and negatively affect the Company's ability to maintain the Company's exception from regulation under the Investment Company Act. To avoid being required to register as an investment company under the Investment Company Act, the Company and its subsidiaries may be unable to sell assets the Company would otherwise want to sell and may need to sell assets the Company would otherwise wish to retain. In addition, the Company may have to acquire additional income- or loss-generating assets that the Company might not otherwise have acquired or may have to forego opportunities to acquire interests in companies that the Company would otherwise want to acquire and would be important to the Company's investment strategy.

If the Company were required to register as an investment company but failed to do so, it would be prohibited from engaging in the Company's business, and criminal and civil actions could be brought against the Company. In addition, the Company's contracts would be unenforceable unless a court required enforcement, and a court could appoint a receiver to take control of the Company and liquidate its business.

Stockholders have limited control over changes in the Company's policies and operations.

The Company's board of directors determines the Company's investment policies, including its policies regarding financing, growth, debt capitalization, REIT qualification and distributions. The Company's board of directors may amend or revise these and other policies without a vote of the Company's stockholders. Under the Company's charter

and the Maryland General Corporation Law, its stockholders currently have a right to vote only on the following matters:

- the election or removal of directors;
- any amendment of the Company's charter, except that the Company's board of directors may amend its charter without stockholder approval to change the Company's name, increase or decrease the aggregate number of the Company's shares or the number of shares of any class or series that the Company has the authority to issue, effect certain reverse stock splits, or change the name or other designation or par value of any class or series of the Company's stock and the aggregate par value of the Company's stock;
- the Company's liquidation and dissolution; and
- except as otherwise permitted by law, the Company's being a party to any merger, consolidation, sale or other disposition of substantially all of its assets or similar reorganization.

If the Company does not successfully implement a liquidity event, investors may have to hold an investment for an indefinite period.

During 2020, it is anticipated that the Company's board of directors will continue to evaluate various strategic options, which may include other transactions to provide stockholders with liquidity of their investment. If the Company's board of directors determines to pursue a liquidity event regarding the remainder of the Company's assets, the Company would be under no obligation to conclude the process within a set time. If the Company adopts a plan of liquidation, the timing of the sale of assets will depend on real estate and financial markets, economic conditions in areas in which its investments are located and federal income tax effects on stockholders that may prevail in the future. The Company cannot guarantee that the Company will be able to liquidate all of the Company's remaining assets on favorable terms, if at all. After the Company adopts a plan of liquidation, the Company would likely remain in existence until all its investments are liquidated. If the Company does not pursue a liquidity event or delays such a transaction due to market conditions, the Company's common stock may continue to be illiquid and investors may, for an indefinite period of time, be unable to convert investor shares to cash easily, if at all, and could suffer losses on an investment in the Company's shares.

Non-traded REITs have been the subject of increased scrutiny by regulators and media outlets resulting from inquiries and investigations initiated by Financial Industry Regulatory Authority, Inc. and the Commission.

The Company's securities, like other non-traded REITs, are sold through broker-dealers and financial advisors. Governmental and self-regulatory organizations such as the Commission and self-regulatory organizations such as Financial Industry Regulatory Authority, Inc. ("FINRA") impose and enforce regulations on broker-dealers, investment advisers and similar financial services companies. In disciplinary proceedings in 2012, the Enforcement Division of FINRA required a broker-dealer to pay restitution to investors of a non-traded REIT in connection with the broker-dealer's sale and promotion activities. FINRA has also filed complaints against a broker-dealer firm with respect to (i) its solicitation of investors to purchase shares in a non-traded REIT without conducting a reasonable inquiry of investor suitability and (ii) its provision of misleading distribution information. In February 2014, four non-traded REITs with affiliated sponsors disclosed in public filings a settlement with the Commission with respect to allegations that these REITs misled investors about their share-pricing methods, concealing inter-fund transactions and extra payments to executives.

The above-referenced proceedings have resulted in increased regulatory scrutiny from the Commission regarding non-traded REITs. As a result of this increased scrutiny and accompanying negative publicity and coverage by media outlets, FINRA may impose additional restrictions on sales practices in the independent broker-dealer channel for non-traded REITs, and accordingly the Company may face increased difficulties in raising capital. If the Company becomes the subject of scrutiny, even if the Company has complied with all applicable laws and regulations, responding to such regulator inquiries could be expensive and distract the Company's management.

Risks Related to Conflicts of Interest and the Company's Relationships with Its Advisor and Its Affiliates

There will be competing demands on the Company's officers and directors, and they may not devote all of their attention to the Company which could have a material adverse effect on its business and financial condition.

Stephen H. Mauldin, a member of the Company's board of directors, president and chief executive officer, is also an officer and director of the Advisor and other affiliated entities and may experience conflicts of interest in managing the Company because he also has management responsibilities for other companies including companies that may invest in some of the same types of assets in which the Company may invest. In addition, substantially all of the other companies that he works for are affiliates of the Company and/or the Advisor. For these reasons, he shares his management time and services among those companies and the Company and will not devote all of his attention to the Company and could take actions that are more favorable to the other companies than to the Company.

In addition, Ixchell C. Duarte, the Company's chief financial officer, senior vice president and treasurer, John F. Starr, the Company's chief operating officer and senior vice president, and the Company's other officers also serve as officers of, and devote time to, other affiliates of the Advisor. These officers may experience conflicts of interest in managing the Company because they also have management responsibilities for multiple programs. For these reasons, these officers will share their management time and services among these other programs and the Company, and will not devote all of their attention to the Company and could take actions that are more favorable to certain affiliates than to the Company.

The Advisor and its affiliates, including all of the Company's executive officers and affiliated directors, will face conflicts of interest as a result of their compensation arrangements with the Company, which could result in actions that are not in the best interest of the Company's stockholders.

The Company pays its Advisor and its affiliates substantial fees. These fees could influence their advice to the Company, as well as the judgment of affiliates of the Advisor performing services for the Company. Among other matters, these compensation arrangements could affect their judgment with respect to:

- the continuation, renewal or enforcement of the Company's agreements with its Advisor and its affiliates;
- additional Offerings of equity by the Company, which would create an opportunity for the Managing Dealer, to earn additional fees and for the Advisor to earn increased advisory fees;
- property sales, which may entitle the Advisor to real estate commissions;
- property acquisitions from third parties, which entitle the Advisor to an investment services fee;
- borrowings to acquire assets, which increase the investment services fees and asset management fees payable to the Advisor and which entitle the Advisor or its affiliates to receive other acquisition fees in connection with assisting in obtaining financing for assets if approved by the Company's board of directors, including a majority of the Company's independent directors;
- whether the Company seeks to internalize its management functions, which could result in it retaining some of the Advisor's and its affiliates' key officers for compensation that is greater than that which they currently earn or which could require additional payments to affiliates of the Advisor to purchase the assets and operations of the Advisor and its affiliates performing services for the Company;
- the listing of, or other liquidity event with respect to, the Company's shares, which may entitle the Advisor to a subordinated incentive fee;
- a sale of assets, which may entitle the Advisor to a subordinated share of net sales proceeds; and
- whether and when the Company seeks to sell the Company's operating partnership or its assets, which sale could entitle the Advisor to additional fees.

The fees the Advisor receives in connection with transactions involving the purchase and management of the Company's assets are not necessarily based on the quality of the investment or the quality of the services rendered to the Company. The basis upon which fees are calculated may influence the Advisor to recommend riskier transactions to the Company.

None of the agreements with the Advisor or any other affiliates were negotiated at arm's length.

Agreements with the Advisor or any other affiliates may contain terms that would not otherwise apply if the Company entered into agreements negotiated at arm's length with third parties.

If the Company internalizes the Company's management functions, an interest in the Company could be diluted, the Company could incur other significant costs associated with being self-managed, the Company may not be able to retain or replace key personnel and may have increased exposure to litigation as a result of internalizing its management functions.

The Company may internalize management functions provided by the Advisor and its affiliates. The Company's board of directors may decide in the future to acquire assets and personnel from the Advisor or its affiliates for consideration that would be negotiated at that time. However, as a result of the non-solicitation clause in the advisory agreement, generally the acquisition of Advisor personnel would require the prior written consent of the Advisor. There can be no assurances that the Company will be successful in retaining the Advisor's key personnel in the event of an internalization transaction. In the event the Company acquires the Advisor, the Company cannot be sure of the form or amount of consideration or other terms relating to any such acquisition, which could take many forms, including cash payments, promissory notes and shares of the Company's stock. The payment of such consideration could reduce the percentage of the Company's shares owned by persons who purchase shares in the Company's offering and could reduce the net income per share and FFO per share attributable to an investment.

In addition, the Company may issue equity awards to officers and consultants, which would increase operating expenses and decrease net income and FFO. The Company cannot reasonably estimate the amount of fees to the Advisor and other affiliates the Company would save, and the costs it would incur, if the Company acquired these entities. If the expenses the Company assumes as a result of an internalization are higher than the expenses the Company avoids paying to the Advisor and other affiliates, its net income per share and FFO per share would be lower than they otherwise would have been had the Company not acquired these entities.

Additionally, if the Company internalizes its management functions, the Company could have difficulty integrating these functions. Currently, the officers of the Advisor and its affiliates perform asset management and general and administrative functions, including accounting and financial reporting, for multiple entities. The Company may fail to properly identify the appropriate mix of personnel and capital needs to operate as a stand-alone entity. An inability to manage an internalization transaction effectively could result in the Company's incurring additional costs and divert its management's attention from effectively managing the Company's properties and overseeing other real estate-related assets.

In recent years, internalization transactions have been the subject of stockholder litigation. Stockholder litigation can be costly and time-consuming, and there can be no assurance that any litigation expenses the Company might incur would not be significant or that the outcome of litigation would be favorable to the Company. Any amounts the Company is required to expend defending any such litigation will reduce the amount of funds available for investment by the Company in properties or other investments.

The Company is not in privity of contract with service providers that may be engaged by the Advisor to perform advisory services and they may be insulated from liabilities to the Company, and the Advisor has minimal assets with which to remedy any liabilities to the Company.

The Advisor sub-contracts with affiliated or unaffiliated service providers for the performance of substantially all of its advisory services. The Advisor has engaged affiliates of the Sponsor to perform certain services on its behalf pursuant to agreements to which the Company is not a party. As a result, the Company is not in privity of contract with any such service provider and, therefore, such service provider will have no direct duties, obligations or liabilities to the Company. In addition, the Company has no right to any indemnification to which the Advisor may be entitled under any agreement with a service provider. The service providers the Advisor may subcontract with may be

insulated from liabilities to the Company for services they perform, but may have certain liabilities to the Advisor. The Advisor has minimal assets with which to remedy liabilities to the Company resulting under the advisory agreement.

Risks Related to The Company's Business

The Company depends on tenants for a significant portion of its revenue and lease defaults or terminations could have an adverse effect.

The Company's ability to repay any outstanding debt and make distributions to stockholders depends upon the ability of its tenants to make payments to the Company, and their ability to make these payments depends primarily on their ability to generate sufficient revenues in excess of operating expenses from businesses conducted on the Company's properties. For example, a tenant's failure or delay in making scheduled rent payments to the Company may result from the tenant realizing reduced revenues at the properties it operates. Defaults on lease payment obligations by tenants would cause the Company to lose the revenue associated with those leases and require the Company to find an alternative source of revenue to pay the Company's mortgage indebtedness and prevent a foreclosure action. In addition, if a tenant at one of the Company's single-user facilities, which are properties designed or built primarily for a particular tenant or a specific type of use, defaults on its lease obligations, the Company may not be able to readily market a single-user facility to a new tenant without making capital improvements or incurring other significant costs.

The Company's long-term leases may not result in fair market lease rates over time; therefore, the Company's income and its distributions could be lower than if the Company did not enter into long-term leases.

The Company typically enters into long-term leases with tenants of certain of its properties. The Company's long-term leases would likely provide for rent to increase over time. However, if the Company does not accurately judge the potential for increases in market rental rates, the Company may set the terms of these long-term leases at levels less than then-current market rental rates even after contractual rent increases. Further, the Company may have no ability to terminate those leases or to adjust the rent to then-prevailing market rates. As a result, the Company's income and distributions could be lower than if the Company did not enter into long-term leases.

A slow economy could adversely affect certain of the properties in which the Company invests, and the financial difficulties of the Company's tenants and operators could adversely affect the Company.

A slow economy could adversely affect certain of the properties in which the Company invests. Although a general downturn in the real estate industry would be expected to adversely affect the value of the Company's properties, a downturn in the seniors housing sector in which the Company invests could compound the adverse effect. Continued economic weakness combined with higher costs, especially for energy, food and commodities, can put considerable pressure on consumer spending, which, along with a lack of available debt, could result in the Company's tenants experiencing a decline in financial and operating performance and/or a decline in earnings from the Company's TRS investments.

Disruptions in the financial markets and deteriorating economic conditions could impact certain of the real estate properties the Company acquires and such real estate could experience reduced occupancy levels from that anticipated at the time of the Company's acquisition of such real estate. The value of the Company's real estate investments could decrease below the amounts the Company paid for the investments. Revenues from properties could decrease due to lower occupancy rates, reduced rental rates and potential increases in uncollectible rent. The Company will incur expenses, such as for maintenance costs, insurances costs and property taxes, even though a property is vacant. The longer the period of significant vacancies for a property, the greater the potential negative impact on the Company's revenues and results of operations.

The inability of seniors to sell their homes could negatively impact occupancy rates, revenues, cash flows and results of operations of the properties the Company acquires.

Downturns in the housing markets could adversely affect the ability (or perceived ability) of seniors to currently afford entrance fees and resident fees as potential residents frequently use the proceeds from the sale of their homes to cover the cost of these fees. Specifically, if seniors have a difficult time selling their homes, these difficulties could impact their ability to relocate into, or finance their stays at, the Company's seniors housing properties with private resources.

If the volatility in the housing market returns, the occupancy rates, revenues, cash flows and results of operations for these properties could be negatively impacted.

The Company does not have control over market and business conditions that may affect its success.

The following external factors, as well as other factors beyond the Company's control, may reduce the value of properties that it acquires, the ability of tenants to pay rent on a timely basis, or at all, the amount of the rent to be paid and the ability of borrowers to make loan payments on time, or at all:

- changes in general or local economic or market conditions;
- the pricing and availability of debt, operating lines of credit or working capital;
- inflation and other increases in operating costs, including utilities and insurance premiums;
- increased costs and shortages of labor;
- increased competition;
- quality of management;
- failure by a tenant to meet its obligations under a lease;
- bankruptcy of a tenant or borrower;
- the ability of an operator to fulfill its obligations;
- limited alternative uses for properties;
- changing consumer habits or other changes in supply of, or demand for, similar or competing products;
- acts of God, such as earthquakes, floods and hurricanes;
- condemnation or uninsured losses;
- changing demographics; and
- changing government regulations, including REIT taxation, real estate taxes, environmental, land use and zoning laws.

Further, the results of operations for a property in any one period may not be indicative of results in future periods, and the long-term performance of such property generally may not be comparable to, and cash flows may not be as predictable as, other properties owned by third parties in the same or similar industry. If tenants are unable to make lease payments, TRS entities do not achieve the expected levels of operating income, or borrowers are unable to make loan payments as a result of any of these factors, cash available for distributions to the Company's stockholders may be reduced.

The Company may be limited in its ability to vary the Company's portfolio in response to changes in economic, market or other conditions, including by restrictions on transfer imposed by the Company's limited partners, if any, in the Company's operating partnership or by the Company's lenders. Additionally, the return on the Company's real estate assets also may be affected by a continued or exacerbated general economic slowdown experienced in the U.S. generally and in the local economies where its properties and the properties underlying the Company's other real estate-related investments are located, including:

- poor economic conditions may result in a decline in the operating income at the Company's properties and defaults by tenants of the Company's properties and borrowers under its investments in mortgage, bridge or mezzanine loans; and

- increasing concessions, reduced rental rates or capital improvements may be required to maintain occupancy levels.

The Company's exposure to typical real estate investment risks could reduce its income.

The Company's properties are subject to the risks typically associated with investments in real estate. Such risks include the possibility that the Company's properties will generate operating income, rent and capital appreciation, if any, at rates lower than anticipated or will yield returns lower than those available through other investments. Further, there are other risks by virtue of the fact that the Company's ability to vary its portfolio in response to changes in economic and other conditions will be limited because of the general illiquidity of real estate investments. Income from the Company's properties may be adversely affected by many factors including, but not limited to, an increase in the local supply of properties similar to the Company's properties, newer competing properties, a decrease in the number of people interested in the properties that the Company acquires, national or local economic deterioration, increases in operating costs due to inflation and other factors that may not be offset by increased lease rates, and changes in consumer tastes.

The Company may be unable to sell assets if or when the Company decides to do so.

Maintaining the Company's REIT qualification and continuing to avoid registration under the Investment Company Act as well as many other factors, such as general economic conditions, the availability of financing, interest rates and the supply and demand for the particular asset type, may limit the Company's ability to sell real estate assets. These factors are beyond the Company's control. The Company cannot predict whether it will be able to sell any real estate asset on favorable terms and conditions, if at all, or the length of time needed to sell an asset.

An increase in real estate taxes may decrease the Company's income from properties.

From time to time, the amount the Company pays for property taxes will increase as either property values increase or assessment rates are adjusted. Increases in a property's value or in the assessment rate will result in an increase in the real estate taxes due on that property. If the Company is unable to pass the increase in taxes through to its tenants, the Company's net operating income for the property will decrease.

If one or more of the Company's tenants file for bankruptcy protection, the Company may be precluded from collecting all sums due.

If one or more of the Company's tenants, or the guarantor of a tenant's lease, commences, or has commenced against it, any proceeding under any provision of the U.S. federal bankruptcy code, as amended, or any other legal or equitable proceeding under any bankruptcy, insolvency, rehabilitation, receivership or debtor's relief statute or law, the Company may be unable to collect sums due under the Company's lease(s) with that tenant. Any or all of the tenants, or a guarantor of a tenant's lease obligations, could be subject to a bankruptcy or similar proceeding. A bankruptcy or similar proceeding may bar the Company's efforts to collect pre-bankruptcy debts from those entities or their properties unless the Company is able to obtain an order from the bankruptcy court. If a lease is rejected by a tenant in bankruptcy, the Company would only have a general unsecured claim against the tenant, and may not be entitled to any further payments under the lease. Such an event could cause a decrease or cessation of rental payments which would reduce the Company's cash flow and the amount available for distribution to stockholders. In the event of a bankruptcy or similar proceeding, the Company cannot assure investors that the tenant or its trustee will assume the Company's lease. If a given lease, or guaranty of a lease, is not assumed, the Company's cash flow and the amounts available for distribution to stockholders may be adversely affected.

If a sale-leaseback transaction is re-characterized in a tenant's bankruptcy proceeding, the Company's financial condition could be adversely affected.

The Company has entered into sale-leaseback transactions whereby the Company purchases a property and then leases the same property back to the person from whom it was purchased. In the event of the bankruptcy of a tenant, a transaction structured as a sale-leaseback may be re-characterized as either a financing or a joint venture, either of which outcomes could adversely affect the Company's financial condition, cash flow, REIT qualification and the amount available for distributions to investors.

If the sale-leaseback were re-characterized as a financing, the Company might not be considered the owner of the property, and as a result would have the status of a creditor in relation to the tenant. In that event, the Company would no longer have the right to sell or encumber its ownership interest in the property. Instead, the Company would have a claim against the tenant for the amounts owed under the lease, with the claim arguably secured by the property. The tenant/debtor might have the ability to propose a plan restructuring the term, interest rate and amortization schedule of its outstanding balance. If confirmed by the bankruptcy court, the Company could be bound by the new terms and prevented from foreclosing its lien on the property. If the sale-leaseback were re-characterized as a joint venture, the Company's lessee and the Company could be treated as co-venturers with regard to the property. As a result, the Company could be held liable, under some circumstances, for debts incurred by the lessee relating to the property.

Multiple property leases with individual tenants increase the Company's risks in the event that such tenants or borrowers become financially impaired.

Defaults by a tenant may continue for some time before the Company determines that it is in the Company's best interest to evict the tenant. Tenants may lease more than one property. As a result, a default by, or the financial failure of, a tenant could cause more than one property to become vacant or more than one lease to become non-performing. Defaults or vacancies can reduce the Company's rental income and funds available for distribution and could decrease the resale value of affected properties until they can be re-leased.

The Company relies on various security provisions in the Company's leases for minimum rent payments which could have a material adverse effect on the Company's financial condition.

The Company's leases may, but are not required to, have security provisions such as deposits, stock pledges and guarantees or shortfall reserves provided by a third-party tenant or operator. These security provisions may terminate at either a specific time during the lease term once net operating income of the property exceeds a specified amount or upon the occurrence of other specified events. Certain security provisions may also have limits on the overall amount of the security under the lease. After the termination of a security feature, or in the event that the maximum limit of a security provision is reached, the Company may only look to the tenant to make lease payments. In the event that a security provision has expired or the maximum limit has been reached or a provider of a security provision is unable to meet its obligations, the Company's results of operations and ability to pay distributions to the Company's stockholders could be adversely affected if the Company's tenants are unable to generate sufficient FFO to meet minimum rent payments and the tenants do not otherwise have the resources to make rent payments.

The Company's real estate assets may be subject to impairment charges which could have a material adverse effect on the Company's financial condition.

The Company is required to periodically evaluate the recoverability of the carrying value of the Company's real estate assets for impairment indicators. Factors considered in evaluating impairment of the Company's real estate assets held for investment include significant declines in property operating profits, recurring property operating losses and other significant adverse changes in general market conditions that are considered permanent in nature. Generally, a real estate asset held for investment is not considered impaired if the undiscounted, estimated future cash flows of the asset over its estimated holding period are in excess of the asset's net book value at the balance sheet date. Management makes assumptions and estimates when considering impairments and actual results could vary materially from these assumptions and estimates.

The Company is uncertain that its existing sources for funding of future capital needs will remain adequate.

The Company has established a Revolving Credit Facility and capital reserves on a property-by-property basis, as the Company deems appropriate to fund anticipated capital improvements. If the Company's Revolving Credit Facility is inadequate to address its capital improvement needs or if the Company does not have enough capital reserves to supply needed funds for capital improvements throughout the life of the Company's investment in a property and there is insufficient cash available from operations or from other sources, the Company may be required to defer necessary improvements to a property. This may result in decreased cash flow and reductions in property values. If the Company's reserves are insufficient to meet its cash needs, the Company may have to obtain financing from either affiliated or unaffiliated sources to fund its cash requirements. There can be no guarantee that these sources will be available to the Company. Accordingly, in the event that the Company develops a need for additional capital in the future for acquisitions or the maintenance or improvement of the Company's properties or for any other reason, the

Company has not identified any additional established sources for such funding, and the Company cannot assure investors that such sources of funding will be available to the Company in the future.

Increased competition for residents or patients may reduce the ability of certain of the Company's operators to make scheduled rent payments to the Company or affect the Company's operating results.

The types of properties in which the Company invests are expected to face competition for residents or patients from other similar properties, both locally and nationally. Any decrease in revenues due to such competition at any of the Company's properties may adversely affect the Company's operators' ability to make scheduled rent payments to the Company and with respect to the Company's seniors housing properties leased to TRS entities, may adversely affect the Company's operating results of those properties.

Lack of diversification of the Company's properties may increase the Company's exposure to the risks of adverse economic conditions as to particular asset classes and categories of property within asset classes.

Since the Company's assets are concentrated in certain asset classes or any brand or other category within an asset class, an economic downturn in such class or asset category could have an adverse effect on the Company's results of operations and financial condition.

The Company may be subject to litigation which could have a material adverse effect on its business and financial condition.

The Company may be subject to litigation, including claims relating to the Company's operations, offerings, unrecognized pre-acquisition contingencies and otherwise in the ordinary course of business. Some of these claims may result in potentially significant judgments against the Company, some of which are not, or cannot be, insured against. The Company generally intends to vigorously defend itself; however, the Company cannot be certain of the ultimate outcomes of claims that may arise in the future. Resolution of these types of matters against the Company may result in its payment of significant fines or settlements, which, if not insured against, or if these fines and settlements exceed insured levels, would adversely impact the Company's earnings and cash flows. Certain litigation or the resolution of certain litigation may affect the availability or cost of some of the Company's insurance coverage which could adversely impact the Company's results of operations and cash flows, expose the Company to increased risks that would be uninsured and/or adversely impact its ability to attract officers and directors.

The Company will have no economic interest in the land beneath ground lease properties that the Company may acquire.

Certain of the properties that the Company acquires may be on land owned by a third-party, while the Company owns a leasehold, permit or similar interest. This means that the Company does not retain fee ownership in the underlying land. Accordingly, with respect to such properties, the Company will have no economic interest in the land or buildings at the expiration of the ground lease or permit. As a result, the Company will not share in any increase in value of the land associated with the underlying property and may forfeit rights to assets constructed on the land such as buildings and improvements at the end of the lease. Further, because the Company does not completely control the underlying land, the third-party owners that lease this land to the Company could take certain actions to disrupt the Company's rights in the properties or the Company's tenants' operation of the properties or take the properties in an eminent domain proceeding. Such events are beyond the Company's control. If the entity owning the land under one of the Company's properties chose to disrupt the Company's use either permanently or for a significant period of time, then the value of the Company's assets could be impaired.

Existing seniors housing properties that the Company acquires may be subject to unknown or contingent liabilities which could cause the Company to incur substantial costs.

The Company has acquired operating seniors housing properties which may be subject to unknown or contingent liabilities for which the Company may have no recourse, or only limited recourse, against the sellers. In general, the representations and warranties provided under transaction agreements related to the acquisition of the Company's properties do not survive the closing of the transactions. While the Company generally requires the sellers to indemnify the Company with respect to breaches of representations and warranties that survive, such indemnification may be limited and subject to various materiality thresholds, a significant deductible or an aggregate cap on

indemnifiable losses. There is no guarantee that the Company will recover any amounts with respect to losses due to breaches by the sellers of their representations and warranties. In addition, the total amount of costs and expenses that may be incurred with respect to liabilities associated with these properties may exceed the Company's expectations, and it may experience other unanticipated adverse effects, all of which may adversely affect the Company's financial condition, results of operations, the market price of its common stock and its ability to make distributions to the Company's stockholders.

The Company may not be able to compete effectively in those markets where overbuilding exists and the Company's inability to compete in those markets may have a material adverse effect on the Company's business, financial condition and results of operations and the Company's ability to make distributions to investors.

Overbuilding in the seniors housing segment in the late 1990s reduced occupancy and revenue rates at seniors housing facilities. The occurrence of another period of overbuilding could adversely affect the Company's future occupancy and resident fee rates, decreased occupancy and operating margins, and lower profitability, which in turn could materially adversely affect the Company's business, financial condition and results of operations and the Company's ability to make distributions to its stockholders.

The Company invests in private-pay seniors housing properties, an asset class of the seniors housing sector that is highly competitive.

Private-pay seniors housing is a competitive asset class of the seniors housing sector. The Company's seniors housing properties compete on the basis of location, affordability, quality of service, reputation and availability of alternative care environments. The Company's seniors housing properties also rely on the willingness and ability of seniors to select seniors housing options. The Company's property operators may have competitors with greater marketing and financial resources able to offer incentives or reduce fees charged to residents thereby potentially reducing the perceived affordability of the Company's properties. Additionally, the high demand for quality caregivers in a given market could increase the costs associated with providing care and services to residents. These and other factors could cause the amount of the Company's revenue generated by private payment sources to decline or the Company's operating expenses to increase. In periods of weaker demand, as has occurred during the recent general economic recession, profitability may be negatively affected by the relatively high fixed costs of operating a seniors housing property.

A severe cold and flu season, epidemic or any other widespread illness including COVID-19 could adversely affect the occupancy of our seniors housing properties.

The Company's revenues and our operators' revenues are dependent on occupancy. It is impossible to predict the severity of the cold and flu season or the occurrence of epidemics or any other widespread illnesses or pandemics including COVID-19. The occupancy of our seniors housing properties, both managed and triple-net leased properties, could significantly decrease in the event of a severe cold and flu season, an epidemic or any other widespread illness or pandemic. Such a decrease could affect the operating income of our managed seniors housing properties and the ability of our triple-net tenants to make payments to us. Further, depending on the severity of the occurrence, the Company may be required to incur significant costs to identify, contain and remedy the impacts of those occurrences at those seniors housing properties. As a result, these occurrences could significantly adversely affect our results of operations.

Events which adversely affect the ability of seniors to afford the Company's daily resident fees could cause the occupancy rates, resident fee revenues and results of operations of the Company's seniors housing properties to decline.

Costs to seniors associated with certain types of the seniors housing properties the Company acquires generally are not reimbursable under government reimbursement programs such as Medicaid and Medicare. Substantially all of the resident fee revenues generated by the Company's properties are derived from private payment sources consisting of income or assets of residents or their family members. Only seniors with income or assets meeting or exceeding certain standards can typically afford to pay the Company's daily resident and service fees and, in some cases, entrance fees. Economic downturns such as the one recently experienced in the U.S., reductions or declining growth of government entitlement programs, such as social security benefits, or stock market volatility could adversely affect the ability of seniors to afford the fees for the Company's seniors housing properties. If the Company's tenants or

managers are unable to attract and retain seniors with sufficient income, assets or other resources required to pay the fees associated with assisted and independent living services, the occupancy rates, resident fee revenues and results of operations for these properties could decline, which, in turn, could have a material adverse effect on the Company's business.

Significant legal actions brought against the tenants or managers of the Company's seniors housing properties could subject them to increased operating costs and substantial uninsured liabilities, which may affect their ability to meet their obligations to the Company.

The tenants or managers of the Company's seniors housing properties may be subject to claims that their services have resulted in resident injury or other adverse effects. The insurance coverage that is maintained by such tenants or managers, whether through commercial insurance or self-insurance, may not cover all claims made against them or continue to be available at a reasonable cost, if at all. In some states, insurance coverage for the risk of punitive damages arising from professional liability and general liability claims and/or litigation may not, in certain cases, be available to the Company's tenants or managers due to state law prohibitions or limitations of availability. As a result, the tenants or managers of the Company's seniors housing properties operating in these states may be liable for punitive damage awards that are either not covered or are in excess of their insurance policy limits. From time to time, there may also be increases in government investigations of long-term care providers, as well as increases in enforcement actions resulting from these investigations. Insurance is not available to cover such losses. Any adverse determination in a legal proceeding or government investigation could lead to potential termination from government programs, large penalties and fines and otherwise have a material adverse effect on a facility operator's financial condition. If a tenant or manager is unable to obtain or maintain insurance coverage, if judgments are obtained in excess of the insurance coverage, if a tenant or manager is required to pay uninsured punitive damages, or if a tenant or manager is subject to an uninsurable government enforcement action, the tenant or manager could be exposed to substantial additional liabilities, which could result in its bankruptcy or insolvency or have a material adverse effect on a tenant's or manager's business and its ability to meet its obligations to the Company.

Moreover, advocacy groups that monitor the quality of care at seniors housing properties have sued facility operators and demanded that state and federal legislators enhance their oversight of trends in seniors housing property ownership and quality of care. Patients have also sued operators of seniors housing properties and have, in certain cases, succeeded in winning very large damage awards for alleged abuses. This litigation and potential future litigation may materially increase the costs incurred by the tenants and managers of the Company's properties for monitoring and reporting quality of care compliance. Increased costs could limit the ability of the tenants and managers of the Company's properties to meet their obligations to the Company, potentially decreasing the Company's revenue and increasing its collection and litigation costs. To the extent the Company is required to remove or replace a manager, the Company's revenue from the affected facility could be reduced or eliminated for an extended period of time.

Finally, if the Company leases a seniors housing property to the Company's TRS rather than leasing the property to a third-party tenant, the Company's TRS will generally be the license holder and become subject to state licensing requirements and certain operating risks that apply to facility operators, including regulatory violations and third-party actions for negligence or misconduct. The TRS will have increased liability resulting from events or conditions that occur at the facility, including, for example, injuries to residents and deaths of residents at the facility. In the event the TRS incurs liability and a successful claim is made that the separate legal status of the TRS should be ignored for equitable or other reasons (i.e. a corporate veil piercing claim), the Company may also become liable for such matters. Insurance may not cover all such liabilities. Any negative publicity resulting from lawsuits related to the Company's TRS status as a licensee could adversely affect the Company's business reputation and ability to attract and retain residents in the Company's leased properties, the Company's ability to obtain or maintain licenses at the affected facility and other facilities, and the Company's ability to raise additional capital.

The Company is exposed to various operational risks, liabilities and claims with respect to its seniors housing properties that may adversely affect the Company's ability to generate revenues and/or increase its costs.

Through the Company's ownership of seniors housing properties, the Company is exposed to various operational risks, liabilities and claims with respect to the Company's properties in addition to those generally applicable to ownership of real property. These risks include fluctuations in occupancy levels, the inability to achieve economic resident fees (including anticipated increases in those fees), rent control regulations, and increases in labor costs (as a result of unionization or otherwise) and services. Any one or a combination of these factors, together with other

market and business conditions beyond the Company's control, could result in operating deficiencies at the Company's seniors housing properties, which could have a material adverse effect on the Company's facility operators' results of operations and their ability to meet their obligations to the Company and operate the properties effectively and efficiently, which in turn could adversely affect the Company.

Unanticipated expenses and insufficient demand for seniors housing properties could adversely affect the Company's profitability.

As part of the Company's investment strategy, the Company may have acquired seniors housing properties in geographic areas where potential customers may not be familiar with the benefits of, and care provided by, that particular property. As a result, the Company may have to incur costs relating to the opening, operation and promotion of such properties that are substantially greater than those incurred in other areas where the properties are better known by the public. These properties may attract fewer residents or patients than other properties the Company has acquired and may have increased costs, such as for marketing expenses, adversely affecting the results of operations of such properties as compared to those properties that are better known.

The Company's failure or the failure of the tenants and managers of the Company's properties to comply with licensing and certification requirements, the requirements of governmental programs, fraud and abuse regulations or new legislative developments may materially adversely affect the operations of the Company's seniors housing properties.

The operations of the Company's seniors housing properties are subject to numerous federal, state and local laws and regulations that are subject to frequent and substantial changes resulting from legislation, adoption of rules and regulations, and administrative and judicial interpretations of existing laws. The ultimate timing or effect of any changes in these laws and regulations cannot be predicted. Failure to obtain licensure or loss or suspension of licensure or certification may prevent a facility from operating or result in a suspension of certain revenue sources until all licensure or certification issues have been resolved. Properties may also be affected by changes in accreditation standards or procedures of accrediting agencies that are recognized by governments in the certification process. State laws may require compliance with extensive standards governing operations and agencies administering those laws regularly inspect such properties and investigate complaints. Failure to comply with all regulatory requirements could result in the loss of the ability to provide or bill and receive payment for healthcare services at the Company's seniors housing properties. Additionally, transfers of operations of certain facilities are subject to regulatory approvals not required for transfers of other types of commercial operations and real estate. The Company has no direct control over the tenant's or manager's ability to meet regulatory requirements and failure to comply with these laws, regulations and requirements may materially adversely affect the operations of these properties.

If the Company's operators fail to cultivate new or maintain existing relationships with residents, community organizations and healthcare providers in the markets in which they operate, the Company's occupancy percentage, payor mix and resident rates may deteriorate, which could have a material adverse effect on the Company's business, financial condition and results of operations and the Company's ability to make distributions to investors.

The Company continues to build relationships with several key seniors housing and post-acute care operators upon whom the Company must depend to successfully market the Company's facilities to potential residents and healthcare providers whose referral practices can impact the choices seniors make with respect to their housing. If the Company's operators are unable to successfully cultivate and maintain strong relationships with these community organizations and other healthcare providers, occupancy rates at the Company's facilities could decline, which could materially adversely affect the Company's business, financial condition and results of operations and its ability to make distributions to investors.

Government budget deficits could lead to a reduction in Medicare and Medicaid reimbursement.

If the U.S. experiences a weakening of the economy, states may be pressured to decrease reimbursement rates with the goal of decreasing state expenditures under state Medicaid programs. The need to control Medicaid expenditures may be exacerbated by the potential for increased enrollment in state Medicaid programs due to high unemployment, declines in family incomes and eligibility expansions authorized by the Healthcare Reform Laws. These potential reductions could be compounded by the potential for federal cost-cutting efforts that could lead to reductions in

reimbursement rates under the federal Medicare program, state Medicaid programs and other healthcare-related programs. Potential reductions in reimbursements under these programs could negatively impact the Company's business, financial condition and results of operations.

Termination of resident lease agreements could adversely affect the Company's revenues and earnings for seniors housing properties providing assisted living services.

Applicable regulations governing assisted living properties generally require written resident lease agreements with each resident. Most of these regulations also require that each resident have the right to terminate the resident lease agreement for any reason on reasonable notice or upon the death of the resident. The operators of seniors housing properties cannot contract with residents to stay for longer periods of time, unlike typical apartment leasing arrangements with terms of up to one year or longer. In addition, the resident turnover rate in the Company's properties may be difficult to predict. If a large number of resident lease agreements terminate at or around the same time, and if the Company's units remained unoccupied, then the Company's tenant's ability to make scheduled rent payments to the Company or, with respect to certain of the Company's seniors housing properties lease to TRS entities, the Company's operating results, the Company's revenues and the Company's earnings could be adversely affected.

The Company's tenants may generally be subject to risks associated with the employment of unionized personnel for the Company's seniors housing properties.

From time to time, the operations of any of the Company's properties may be disrupted through strikes, public demonstrations or other labor actions and related publicity. The Company or the Company's tenants may also incur increased legal costs and indirect labor costs as a result of such disruptions, or contract disputes or other events. One or more of the Company's tenants or the Company's third-party managers operating some of these types of properties may be targeted by union actions or adversely impacted by the disruption caused by organizing activities. Significant adverse disruptions caused by union activities and/or increased costs affiliated with such activities could materially and adversely affect the Company's operations and the financial condition of the seniors housing properties the Company own through a TRS and affect the operating income of the Company's tenants for those properties the Company lease to third parties.

Development and value-add properties are expected to initially generate limited cash flows.

The Company continues to have some value-add or stabilizing properties. During the lease-phase, these types of investments are expected to initially generate limited cash flows, FFO and modified funds from operations ("MFFO") and may result in near term downward pressure on the Company's NAV.

Seniors housing properties in which the Company invests may not be readily adaptable to other uses.

Seniors housing properties in which the Company invests are specific-use properties that have limited alternative uses. Therefore, if the operations of any of the Company's properties become unprofitable for the Company's tenant or operator or for the Company due to industry competition, a general deterioration of the applicable industry or otherwise, then the Company may have great difficulty re-leasing the property or developing an alternative use for the property and the liquidation value of the property may be substantially less than would be the case if the property were readily adaptable to other uses. Should any of these events occur, the Company's income and cash available for distribution and the value of the Company's property portfolio could be reduced.

The Company will not control the management of the Company's properties.

In order to maintain the Company's status as a REIT for federal income tax purposes, the Company may not operate certain types of properties it acquires or participates in the decisions affecting their daily operations. The Company's success, therefore, will depend on its ability to select qualified and creditworthy tenants or managers who can effectively manage and operate the properties. The Company's tenants and managers will be responsible for maintenance and other day-to-day management of the properties or will enter into agreements with third-party operators. The Company's financial condition will be dependent on the ability of third-party tenants and/or managers to operate the properties successfully. The Company generally enters into leasing agreements with tenants and management agreements with managers having substantial prior experience in the operation of the type of property being rented or managed; however, there can be no assurance that the Company will be able to make such

arrangements. Additionally, if the Company elects to treat property it acquires as a result of a borrower's default on a loan or a tenant's default on a lease as "foreclosure property" for federal income tax purposes, the Company will be required to operate that property through an independent manager over whom it will not have control. If the Company's tenants or third-party managers are unable to operate the properties successfully or if the Company selects unqualified managers, then such tenants and managers might not have sufficient revenue to be able to pay the Company's rent, which could adversely affect the Company's financial condition.

Since the Company's properties leased to third-party tenants will generally be on a triple net or modified gross basis, the Company depends on its third-party tenants not only for rental income, but also to pay insurance, taxes, utilities and maintenance and repair expenses in connection with the leased properties. Any failure by the Company's third-party tenants to effectively conduct their operations could adversely affect their business reputation and ability to attract and retain residents in the Company's leased properties. The Company's leases generally require such tenants to indemnify, defend and hold the Company harmless from and against various claims, litigation and liabilities arising in connection with the Company's tenants' respective businesses. The Company cannot assure investors that its tenants will have sufficient assets, income, access to financing and insurance coverage to enable it to satisfy these indemnification obligations. Any inability or unwillingness by the Company's tenants to make rental payments to the Company or to otherwise satisfy their obligations under their lease agreements with the Company could adversely affect the Company.

The Company may not control its joint ventures.

The Company sometimes enters into joint ventures with unaffiliated parties to purchase a property, and the joint venture or general partnership agreement relating to that joint venture or partnership generally provides that the Company will share with the unaffiliated party management control of the joint venture. For example, the Company's venture partners share approval rights on many major decisions. Those venture partners may have differing interests from the Company's and the power to direct the joint venture or partnership on certain matters in a manner with which the Company does not agree. In the event the joint venture or general partnership agreement provides that the Company will have sole management control of the joint venture, the agreement may be ineffective as to a third-party who has no notice of the agreement, and the Company may therefore be unable to control fully the activities of the joint venture. Should the Company enter into a joint venture with another program sponsored by an affiliate, the Company does not anticipate that the Company will have sole management control of the joint venture. In addition, when the Company invests in properties indirectly through the acquisition of interests in entities that own such properties, the Company may not be able to control the management of such assets which may adversely affect the Company's REIT qualification, returns on investment and, therefore, cash available for distribution to the Company's stockholders.

Joint venture partners may have different interests than the Company has, which may negatively impact the Company's control over the Company's ventures.

Investments in joint ventures involve the risk that the Company's co-venturer may have economic or business interests or goals which, at a particular time, are inconsistent with the Company's interests or goals, that the co-venturer may be in a position to take action contrary to the Company's instructions, requests, policies or objectives, or that the co-venturer may experience financial difficulties. Among other things, actions by a co-venturer might subject assets owned by the joint venture to liabilities in excess of those contemplated by the terms of the joint venture agreement or to other adverse consequences. This risk is also present when the Company makes investments in securities of other entities. If the Company does not have full control over a joint venture, the value of the Company's investment will be affected to some extent by a third-party that may have different goals and capabilities than the Company's. As a result, joint ownership of investments and investments in other entities may adversely affect the Company's REIT qualification, returns on investments and, therefore, cash available for distributions to the Company's stockholders may be reduced.

It may be difficult for the Company to exit a joint venture after an impasse.

In the Company's joint ventures, there is a potential risk of impasse in some business decisions because the Company's approval and the approval of each co-venturer may be required for some decisions. In certain of the Company's joint ventures, the Company has the right to buy the other co-venturer's interest or to sell the Company's own interest on specified terms and conditions in the event of an impasse regarding a sale. In the event of an impasse, it is possible

that neither party will have the funds necessary to complete a buy-out. In addition, the Company may experience difficulty in locating a third-party purchaser for the Company's joint venture interest and in obtaining a favorable sale price for the interest. As a result, it is possible that the Company may not be able to exit the relationship if an impasse develops.

Compliance with the Americans with Disabilities Act may reduce the Company's expected distributions.

Under the Americans with Disabilities Act of 1992 ("ADA") all public accommodations and commercial properties are required to meet certain federal requirements related to access and use by disabled persons. Failure to comply with the ADA could result in the imposition of fines by the federal government or an award of damages to private litigants. Although the Company acquires properties that substantially comply with these requirements, the Company may incur additional costs to comply with the ADA. In addition, a number of federal, state, and local laws may require the Company to modify any properties the Company purchases or may restrict further renovations thereof with respect to access by disabled persons. Additional legislation could impose financial obligations or restrictions with respect to access by disabled persons. Although the Company believes that these costs will not have a material adverse effect on the Company, if required changes involve a greater amount of expenditures than the Company currently anticipates, the Company's ability to make expected distributions could be adversely affected.

The Company's properties may be subject to environmental liabilities that could significantly impact the Company's return from the properties and the success of the Company's ventures.

Operations at certain of the properties the Company acquires, or which are used to collateralize loans the Company may originate, may involve the use, handling, storage, and contracting for recycling or disposal of hazardous or toxic substances or wastes. Accordingly, the operations of certain properties the Company acquires will be subject to regulation by federal, state, and local authorities establishing health and environmental quality standards. In addition, certain of the Company's properties may maintain and operate underground storage tanks ("USTs") for the storage of various petroleum products. USTs are generally subject to federal, state, and local laws and regulations that require testing and upgrading of USTs and the remediation of contaminated soils and groundwater resulting from leaking USTs.

As an owner of real estate, various federal and state environmental laws and regulations may require the Company to investigate and clean up certain hazardous or toxic substances, asbestos-containing materials, or petroleum products located on, in or emanating from the Company's properties. Such laws often impose liability without regard to whether the owner knew of, or was responsible for, the release of hazardous substances. The Company may also be held liable to a governmental entity or to third parties for property damage and for investigation and cleanup costs incurred by those parties in connection with the contamination. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs it incurs in connection with the contamination. Other environmental laws impose liability on a previous owner of property to the extent hazardous or toxic substances were present during the prior ownership period. A transfer of the property may not relieve an owner of such liability; therefore, the Company may have liability with respect to properties that the Company or the Company's predecessors sold in the past.

The presence of contamination or the failure to remediate contamination at any of the Company's properties may adversely affect the Company's ability to sell or lease the properties or to borrow using the properties as collateral. While the Company's leases are expected to provide that the tenant is solely responsible for any environmental hazards created during the term of the lease, the Company or an operator of a site may be liable to third parties for damages and injuries resulting from environmental contamination coming from the site.

The Company cannot be sure that all environmental liabilities associated with the properties that the Company acquires will have been identified or that no prior owner, operator or current occupant will have created an environmental condition not known to the Company. Moreover, the Company cannot be sure that: (i) future laws, ordinances or regulations will not impose any material environmental liability on the Company; or (ii) the environmental condition of the properties that it may acquire from time to time will not be affected by tenants and occupants of the properties, by the condition of land or operations in the vicinity of the properties (such as the presence of USTs), or by third parties unrelated to the Company. Environmental liabilities that the Company may incur could have an adverse effect on the Company's financial condition, results of operations and ability to pay distributions.

In addition to the risks associated with potential environmental liabilities discussed above, compliance with environmental laws and regulations that govern the Company's properties may require expenditures and modifications of development plans and operations that could have a detrimental effect on the operations of the properties and the Company's financial condition, results of operations and ability to pay distributions to the Company's stockholders. There can be no assurance that the application of environmental laws, regulations or policies, or changes in such laws, regulations and policies, will not occur in a manner that could have a detrimental effect on any property the Company may acquire.

The Company's properties may contain or develop harmful mold, which could lead to liability for adverse health effects and costs of remediating the problem.

The presence of mold at any of the Company's properties could require the Company to undertake a costly program to remediate, contain or remove the mold. Mold growth may occur when moisture accumulates in buildings or on building materials. Some molds may produce airborne toxins or irritants. Concern about indoor exposure to mold has been increasing because exposure to mold may cause a variety of adverse health effects and symptoms, including allergic or other reactions. The presence of mold could expose the Company to liability from the Company's tenants, their employees and others if property damage or health concerns arise.

Legislation and government regulation may adversely affect the development and operations of properties the Company acquires.

In addition to being subject to environmental laws and regulations, certain of the development plans and operations conducted or to be conducted on properties the Company acquires require permits, licenses and approvals from certain federal, state and local authorities. Material permits, licenses or approvals may be terminated, not renewed or renewed on terms or interpreted in ways that are materially less favorable to the properties the Company purchases. Furthermore, laws and regulations that the Company or the Company's operators are subject to may change in ways that are difficult to predict. There can be no assurance that the application of laws, regulations or policies, or changes in such laws, regulations and policies, will not occur in a manner that could have a detrimental effect on any property the Company may acquire, the operations of such property and the amount of rent it receives from the tenant of such property.

The Company may be unable to obtain desirable types of insurance coverage at a reasonable cost, if at all, and the Company may be unable to comply with insurance requirements contained in mortgage or other agreements due to high insurance costs.

The Company may not be able either to obtain desirable types of insurance coverage, such as terrorism, earthquake, flood, hurricane and pollution or environmental matter insurance, or to obtain such coverage at a reasonable cost in the future, and this risk may limit the Company's ability to finance or refinance debt secured by the Company's properties. Additionally, the Company could default under debt or other agreements if the cost and/or availability of certain types of insurance make it impractical or impossible to comply with covenants relating to the insurance the Company is required to maintain under such agreements. In such instances, the Company may be required to self-insure against certain losses or seek other forms of financial assurance. The Company may not be able to obtain insurance coverage at reasonable rates due to high premium and/or deductible amounts. As a result, the Company's cash flows could be adversely impacted due to these higher costs, which would adversely affect the Company's ability to pay distributions to the Company's stockholders.

Uninsured losses or losses in excess of insured limits could result in the loss or substantial impairment of one or more of the Company's investments.

The nature of the activities at certain of the Company's properties will expose the Company, the Company's tenants and the Company's operators to potential liability for personal injuries and, with respect to certain types of properties may expose the Company to property damage claims. The Company maintains, and requires the Company's tenants and operators, as well as mortgagors to whom the Company has loaned money to maintain, insurance with respect to each of the Company's properties that tenants lease or operate and each property securing a mortgage that the Company holds, including comprehensive liability, fire, flood and extended coverage insurance. There are, however, certain types of losses (such as from hurricanes, floods, earthquakes or terrorist attacks) that may be either uninsurable or not economically feasible to insure. Furthermore, an insurance provider could elect to deny or limit coverage under

a claim. Should an uninsured loss or loss in excess of insured limits occur, the Company could lose all or a portion of the Company's anticipated revenue stream from the affected property, as well as all or a portion of the Company's invested capital. Accordingly, if the Company, as landlord, incurs any liability which is not fully covered by insurance, the Company would be liable for the uninsured amounts, cash available for distributions to stockholders may be reduced and the value of the Company's assets may decrease significantly. In the case of an insurance loss, the Company might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property.

The Company's TRS structure subjects it to the risk of increased operating expenses.

The Company's TRSs engage independent facility managers pursuant to management agreements and pay these managers a fee for operating the properties and reimburse certain expenses paid by these managers. However, the TRS receives all the operating profit or losses at the facility, net of corporate income tax, and the Company is subject to the risk of increased operating expenses.

The Company's TRS structure subjects the Company to the risk that the leases with the Company's TRSs do not qualify for tax purposes as arm's-length, which would expose the Company to potentially significant tax penalties.

The Company's TRSs generally will incur taxes or accrue tax benefits consistent with a "C" corporation for federal income tax purposes. If the leases between the Company and the Company's TRSs were deemed by the IRS to not reflect an arm's-length transaction as that term is defined by tax law, the Company may be subject to significant tax penalties as the lessor that would adversely impact the Company's profitability and the Company's cash flows.

If the Company's portfolio and risk management systems are ineffective, the Company may be exposed to material unanticipated losses.

The Company continues to refine the Company's portfolio and risk management strategies and tools. However, the Company's portfolio and risk management strategies may not fully mitigate the risk exposure of the Company's operations in all economic or market environments, or against all types of risk, including risks that the Company might fail to identify or anticipate. Any failures in the Company's portfolio and risk management strategies to accurately quantify such risk exposure could limit the Company's ability to manage risks in the Company's operations or to seek adequate risk-adjusted returns and could result in losses.

Changes in accounting pronouncements could adversely impact the Company's or the Company's tenants' reported financial performance.

Accounting policies and methods are fundamental to how the Company records and reports its financial condition and results of operations. Uncertainties posed by various initiatives of accounting standard-setting by the Financial Accounting Standards Board ("FASB") and the SEC, which create and interpret applicable accounting standards for U.S. companies, may change the financial accounting and reporting standards or their interpretation and application of these standards that govern the preparation of our financial statements. Proposed changes include, but are not limited to, changes in lease accounting, revenue recognition, changes to the definition of a business and the adoption of accounting standards likely to require the increased use of "fair-value" measurements and disclosures.

These changes could have a material impact on our reported financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in potentially material reclassifications of prior period financial statements. Similarly, these changes could have a material impact on our tenants' reported financial condition or results of operations or could affect our tenants' preferences regarding leasing real estate.

The Company is highly dependent on information systems and their failure could significantly disrupt the Company's business.

As a healthcare real estate company, the Company's business will be highly dependent on communications and information systems, including systems provided by third parties for which the Company has no control. Any failure or interruption of the Company's systems, whether as a result of human error or otherwise, could cause delays or other

problems in the Company's activities, which could have a material adverse effect on the Company's financial performance.

Cyber security risks and cyber incidents could adversely affect the Company's business and disrupt operations.

Cyber incidents can result from deliberate attacks or unintentional events. These incidents can include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. The result of these incidents could include, but are not limited to, disrupted operations, misstated financial data liability for stolen assets or information, increased cyber security protection costs, litigation and reputational damage adversely affecting customer or investor confidence.

Financing Related Risks

Instability in the credit market and real estate market could have a material adverse effect on the Company's results of operations and financial condition.

The Company may not be able to obtain financing for investments on terms and conditions acceptable to the Company, if at all. In recent periods domestic and international financial markets have experienced unusual volatility and uncertainty. If this volatility and uncertainty were to be experienced again, the Company's ability to borrow monies to finance real estate assets could be significantly impacted. If the Company were unable to borrow funds on terms and conditions that it finds acceptable, the Company likely will have to reduce the number of properties it can purchase, and the return on the properties the Company does purchase likely will be lower. In addition, if the Company pays fees to lock-in a favorable interest rate, falling interest rates or other factors could require it to forfeit these fees. Additionally, the reduction in equity and debt capital resulting from turmoil in the capital markets in the past has resulted in fewer buyers seeking to acquire commercial properties leading to lower property values and the return of these conditions could adversely impact the Company's timing and ability to sell the Company's properties.

In addition to volatility in the credit markets, the real estate market is subject to fluctuation and can be impacted by factors such as general economic conditions, supply and demand, availability of financing and interest rates. To the extent the Company purchased real estate in an unstable market, the Company is subject to the risk that if the real estate market ceases to attract the same level of capital investment in the future that it attracts at the time of the Company's purchases, or the number of parties seeking to acquire properties decreases, the value of the Company's investments may not appreciate or may decrease significantly below the amount the Company pay for these investments.

The Company may enter into agreements with lenders which restrict the Company's ability to pay distributions to investors.

The Company's Revolving Credit Facility contains limitations on distributions and the extent of allowable distributions. The Company's Revolving Credit Facility requires that allowable distributions not exceed 95% of adjusted FFO (as defined in the Revolving Credit Facility agreement), and limits the minimum amount of distributions required to maintain the Company's REIT status. These and other similar restrictions in loan agreements the Company may enter into impact the Company's ability to pay distributions to investors.

Mortgage indebtedness and other borrowings will increase the Company's business risks.

The Company has incurred and may increase the Company's mortgage debt by obtaining loans collateralized by some or all of the Company's assets to obtain funds to acquire additional investments or to pay distributions to the Company's stockholders. If necessary, the Company also may borrow funds to satisfy the requirement that the Company distribute at least 90% of the Company's annual taxable income, or otherwise as is necessary or advisable to assure that the Company maintain the Company's qualification as a REIT for federal income tax purposes.

The Company's charter provides that it may not borrow more than 300% of the value of the Company's net assets without the approval of a majority of the Company's independent directors and the borrowing must be disclosed to the Company's stockholders in the Company's first quarterly report after such approval. Borrowing may be risky if the cash flow from the Company's properties and other real estate-related investments is insufficient to meet the Company's debt obligations. In addition, the Company's lenders may seek to impose restrictions on future

borrowings, distributions and operating policies, including with respect to capital expenditures and asset dispositions. If the Company mortgages assets or pledges equity as collateral and the Company cannot meet the Company's debt obligations, then the lender could take the collateral, and the Company would lose the asset or equity and the income the Company were deriving from the asset.

The Company uses credit facilities to finance the Company's investments, which may require the Company to provide additional collateral and significantly impact its liquidity position.

Some of the Company's credit facilities contain mark-to-market provisions providing that if the market value of the commercial real estate debt or securities pledged by the Company declines in value due to credit quality deterioration, the Company may be required by the Company's lenders to provide additional collateral or pay down a portion of the Company's borrowings. In a weak economic environment, the Company would generally expect credit quality and the value of the commercial real estate debt or securities that serve as collateral for the Company's credit facilities to decline, and in such a scenario it is likely that the terms of the Company's credit facilities would require partial repayment from the Company, which could be substantial. Posting additional collateral to support the Company's credit facilities could significantly reduce the Company's liquidity and limit its ability to leverage its assets. In the event the Company does not have sufficient liquidity to meet such requirements, the Company's lenders can accelerate the Company's borrowings, which could have a material adverse effect on its business and operations.

The Company's revenues are highly dependent on operating results of, and lease payments from, the Company's properties. Defaults by the Company's tenants would reduce the Company's cash available for the repayment of the Company's outstanding debt and for distributions.

The Company's ability to repay any outstanding debt and make distributions to stockholders depends upon the ability of the Company's tenants and managers to generate sufficient operating income to make payments to the Company, and their ability to make these payments will depend primarily on their ability to generate sufficient revenues in excess of operating expenses from businesses conducted on the Company's properties. A tenant's failure or delay in making scheduled rent payments to the Company may result from the tenant realizing reduced revenues at the properties it operates.

Defaults on the Company's borrowings may adversely affect the Company's financial condition and results of operations.

Defaults on loans collateralized by a property the Company owns may result in foreclosure actions and the Company's loss of the property or properties securing the loan that is in default. Such legal actions are expensive. For federal income tax purposes, in general a foreclosure would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt collateralized by the property. If the outstanding balance of the debt exceeds the Company's tax basis in the property, the Company would recognize taxable income on the foreclosure, all or a portion of such taxable income may be subject to tax, and/or required to be distributed to the Company's stockholders in order for the Company to qualify as a REIT. In such case, the Company would not receive any cash proceeds to enable it to pay such tax or make such distributions. If any mortgages contain cross collateralization or cross default provisions, more than one property may be affected by a default. If any of the Company's properties are foreclosed upon due to a default, the Company's financial condition, results of operations and ability to pay distributions to stockholders will be adversely affected.

Financing arrangements involving balloon payment obligations may adversely affect the Company's ability to make distributions.

The Company sometimes enters into fixed-term financing arrangements which require it to make "balloon" payments at maturity. The Company's ability to pay or refinance such obligations at maturity is uncertain and may depend upon the Company's ability to obtain additional financing or sell a particular property. At the time the balloon payment is due, the Company may not be able to raise equity or refinance the balloon payment on terms as favorable as the original loan or sell the property at a price sufficient to make the balloon payment. These refinancing or property sales could negatively impact the rate of return to stockholders and the timing of disposition of the Company's assets. In addition, payments of principal and interest may leave the Company with insufficient cash to pay the distributions that the Company is required to pay to maintain its qualification as a REIT.

Increases in interest rates could increase the amount of the Company's debt payments and adversely affect its ability to make distributions to its stockholders.

The Company also borrows money that bears interest at a variable rate and, from time to time, it may pay mortgage loans or refinance the Company's properties in a rising interest rate environment. Accordingly, increases in interest rates could increase the Company's interest costs, which could have a material adverse effect on the Company's operating cash flow and its ability to make distributions to its stockholders.

Lenders may require the Company to enter into restrictive covenants relating to the Company's operations, which could limit the Company's ability to make distributions to its stockholders.

When providing financing, lenders may impose restrictions on the Company that affect the Company's distributions, operating policies and ability to incur additional debt. Such limitations hamper the Company's flexibility and may impair the Company's ability to achieve its operating plans including maintaining the Company's REIT status.

The Company may acquire various financial instruments for purposes of "hedging" or reducing the Company's risks which may be costly and/or ineffective and will reduce the Company's cash available for distribution to its stockholders.

The Company may engage in hedging transactions to manage the risk of changes in interest rates, price changes or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, by the Company. The Company may use derivative financial instruments for this purpose, collateralized by the Company's assets and investments. Derivative instruments may include interest rate swap contracts, interest rate cap or floor contracts, futures or forward contracts, options or repurchase agreements. The Company's actual hedging decisions will be determined in light of the facts and circumstances existing at the time of the hedge and may differ from time to time. Hedging activities may be costly or become cost-prohibitive and the Company may have difficulty entering into hedging transactions.

To the extent that the Company uses derivative financial instruments to hedge against exchange rate and interest rate fluctuations, the Company will be exposed to credit risk, basis risk and legal enforceability risks. In this context, credit risk is the failure of the counterparty to perform under the terms of the derivative contract. If the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk for the Company. Basis risk occurs when the index upon which the contract is based is more or less variable than the index upon which the hedged asset or liability is based, thereby making the hedge less effective. Finally, legal enforceability risks encompass general contractual risks, including the risk that the counterparty will breach the terms of, or fail to perform its obligations under, the derivative contract. The Company may be unable to manage these risks effectively.

Tax Related Risks

Failure to qualify as a REIT would adversely affect the Company's operations and the Company's ability to pay distributions to investors.

The Company intends to operate as a REIT under the Code and believes the Company has and will continue to operate as a REIT in such manner. However, qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. The determination of various factual matters and circumstances not entirely within the Company's control may also affect the Company's ability to remain qualified as a REIT. If the Company fails to qualify as a REIT for any taxable year, (i) the Company will be subject to federal and state income tax on the Company's taxable income for that year at regular corporate rates, (ii) for taxable years beginning before December 31, 2017, the Company may be subject to alternative minimum tax on the Company's taxable income for that year at regular corporate rates, (iii) unless entitled to relief under relevant statutory provisions, the Company would generally be disqualified from taxation as a REIT for the four taxable years following the year of disqualification as a REIT; and (iv) distributions to stockholders would no longer qualify for the dividends paid deduction in computing the Company's taxable income. If the Company does not qualify as a REIT, the Company would not be required to make distributions to stockholders as a non-REIT is not required to pay dividends to stockholders in order to maintain REIT status or avoid an excise tax. The additional income tax liability the Company would incur as a result of failing to qualify as a REIT would reduce the Company's net earnings available for distributions to stockholders and also reduce the funds available for satisfying the Company's obligations in

general. If the Company fails to qualify as a REIT, the Company may be required to borrow funds or liquidate some investments in order to pay the applicable tax. As a result of all these factors, the Company's failure to qualify as a REIT also could impair the Company's ability to implement its business strategy and would adversely affect the value of its stock.

The Company's leases may be re-characterized as financings which would eliminate depreciation deductions with respect to the Company's properties.

The Company believes that it would be treated as the owner of properties where the Company would own the underlying real estate, except with respect to leases structured as "financing leases," which would constitute financings for federal income tax purposes. If the lease of a property does not constitute a lease for federal income tax purposes and is re-characterized as a secured financing by the IRS, then the Company believes the lease should be treated as a financing arrangement and the income derived from such a financing arrangement should satisfy the 75% and the 95% gross income tests for REIT qualification as it would be considered to be interest on a loan collateralized by real property. Nevertheless, the re-characterization of a lease in this fashion may have adverse tax consequences for the Company. In particular, the Company would not be entitled to claim depreciation deductions with respect to the property (although the Company should be entitled to treat part of the payments the Company would receive under the arrangement as the repayment of principal and not rent). In such event, in some taxable years the Company's taxable income, and the corresponding obligation to distribute 90% of such income, would be increased. With respect to leases structured as "financing leases," the Company will report income received as interest income and will not take depreciation deductions related to the real property. Any increase in the Company's distribution requirements may limit the Company's ability to invest in additional properties and to make additional mortgage loans. No assurance can be provided that the IRS would re-characterize such transactions as financings that would qualify under the 95% and 75% gross income tests.

Re-characterization of sale-leaseback transactions may cause the Company to lose the Company's REIT status.

The Company sometimes purchases properties and leases them back to the sellers of such properties. While the Company uses the Company's best efforts to structure any such sale-leaseback transaction so that the lease will be characterized as a "true lease," thereby allowing the Company to be treated as the owner of the property for federal income tax purposes, the IRS could challenge such characterization. In the event that any sale-leaseback transaction is challenged and re-characterized as a financing transaction or loan for federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed. If a sale-leaseback transaction were so re-characterized, the Company might fail to satisfy the REIT qualification "asset tests" or the "income tests" and, consequently, fail to qualify as a REIT effective with the year of re-characterization. Alternatively, the amount of the Company's taxable income could be recalculated, which might also cause the Company to fail to meet the distribution requirement for a taxable year.

Excessive non-real estate asset values may jeopardize the Company's REIT status.

In order to qualify as a REIT, among other requirements, at least 75% of the value of the Company's assets must consist of investments in real estate, investments in other REITs, cash and cash equivalents and government securities. Accordingly, the value of any other property that is not considered a real estate asset for federal income tax purposes must represent in the aggregate not more than 25% of the Company's total assets. In addition, under federal income tax law, the Company may not own securities in, or make loans to, any one company (other than a REIT, a qualified REIT subsidiary or a TRS) which represent in excess of 10% of the voting securities or 10% of the value of all securities of that company (other than certain securities), or which have, in the aggregate, a value in excess of 5% of the Company's total assets, and the Company may not own securities of one or more TRSs which have, in the aggregate, a value in excess of 20% of the Company's total assets (25% for taxable years beginning before December 31, 2017).

The 75%, 20%, 10% and 5% REIT qualification tests are determined at the end of each calendar quarter. If the Company fails to meet any such test at the end of any calendar quarter, and such failure is not remedied within 30 days after the close of such quarter, the Company will cease to qualify as a REIT, unless certain requirements are satisfied.

The Company may have to borrow funds or sell assets to meet the Company's distribution requirements.

Subject to some adjustments that are unique to REITs, a REIT generally must distribute 90% of its taxable income to its stockholders. For the purpose of determining taxable income, the Company may be required to accrue interest, rent and other items treated as earned for tax purposes, but that it has not yet received. In addition, the Company may be required not to accrue as expenses for tax purposes some items which actually have been paid, or some of the Company's deductions might be subject to certain disallowance rules under the Code. As a result, the Company could have taxable income in excess of cash available for distribution. If this occurs, the Company may have to borrow funds or liquidate some of its assets in order to meet the distribution requirements applicable to a REIT.

Even as a REIT, the Company remains subject to various taxes which would reduce operating cash flow if and to the extent certain liabilities are incurred.

Even as a REIT, the Company is or could be subject to federal, foreign and state and local taxes on the Company's income and property that could reduce operating cash flow, including but not limited to: (i) tax on any undistributed taxable income; (ii) for taxable years beginning before December 31, 2017, alternative minimum tax on the Company's items of tax preference; (iii) certain state income taxes (because not all states treat REITs the same as they are treated for federal income tax purposes); (iv) a tax equal to 100% of net gain from "prohibited transactions"; (v) tax on net gains from the sale of certain "foreclosure property"; (vi) tax on gains of sale of certain "built-in gain" properties; and (vii) certain taxes and penalties if the Company fail to comply with one or more REIT qualification requirements, but nevertheless qualify to maintain the Company's status as a REIT. Foreclosure property includes property with respect to which the Company acquires ownership by reason of a borrower default on a loan or possession by reason of a tenant's default on a lease. The Company may elect to treat certain qualifying property as "foreclosure property," in which case, the gross revenue and net gain from such property will be treated as qualifying income under the 75% and 95% gross income tests for three years following such acquisition. To qualify for such treatment, the Company must satisfy additional requirements, including that the Company operate the property through an independent contractor after a short grace period. The Company will be subject to tax on the Company's net income from foreclosure property. Such net income generally means the excess of any gain from the sale or other disposition of foreclosure property and income derived from foreclosure property that otherwise does not qualify for the 75% gross income test, over the allowable deductions that relate to the production of such income. Any such tax incurred will reduce the amount of cash available for distribution.

The Company's investment strategy may cause the Company to incur penalty taxes, fail to maintain the Company's REIT status or own and sell properties through TRSs, each of which would diminish the return to the Company's stockholders.

The sale of one or more of the Company's properties may be considered a prohibited transaction under the Code. Any "inventory-like" sales would almost certainly be considered such a prohibited transaction. If the Company is deemed to have engaged in a "prohibited transaction" (i.e., the Company sell a property held by the Company primarily for sale in the ordinary course of the Company's trade or business), all net gain that the Company derives from such sale would be subject to a 100% penalty tax. The Code sets forth a safe harbor for REITs that wish to sell property without risking the imposition of the 100% penalty tax. The principal requirements of the safe harbor are that: (i) the REIT must hold the applicable property for not less than two years for the production of rental income prior to its sale; (ii) the aggregate expenditures made by the REIT, or any partner of the REIT, during the two-year period preceding the date of sale which are includible in the basis of the property do not exceed 30% of the net selling price of the property; and (iii) the REIT does not make more than seven sales of property during the taxable year, the aggregate adjusted bases of property sold during the taxable year does not exceed 20% of the aggregate bases of all of the REIT's assets as of the beginning of the taxable year or the fair market value of property sold during the taxable year does not exceed 20% of the fair market value of all of the REIT's assets as of the beginning of the taxable year (this percentage threshold was 10% of the aggregate bases or fair market value of all of the REIT's assets, as the case may be, for taxable years beginning before December 18, 2015). Given the Company's investment strategy, the sale of one or more of its properties may not fall within the prohibited transaction safe harbor.

If the Company desires to sell a property pursuant to a transaction that does not fall within the safe harbor, the Company may be able to avoid the prohibited transaction tax if the Company acquired the property through a TRS, or acquired the property and transferred it to a TRS for a non-tax business purpose prior to the sale (i.e., for a reason other than the avoidance of taxes). The Company may decide to forego the use of a TRS in a transaction that does not

meet the safe harbor based on the Company's own internal analysis, the opinion of counsel or the opinion of other tax advisors that the disposition will not be subject to the prohibited transaction tax. In cases where a property disposition is not effected through a TRS, the IRS could successfully assert that the disposition constitutes a prohibited transaction, in which event all of the net gain from the sale of such property will be payable as a tax which will have a negative impact on cash flow and the ability to make cash distributions.

As a REIT, the value of the Company's ownership interests held in the Company's TRSs may not exceed 20% of the value of all of the Company's assets at the end of any calendar quarter (25% for taxable years beginning before December 31, 2017). If the IRS were to determine that the value of the Company's interests in all of the Company's TRSs exceeded 20% of the value of the Company's total assets at the end of any calendar quarter, then the Company would fail to qualify as a REIT. If the Company determines it to be in its best interest to own a substantial number of the Company's properties through one or more TRSs, then it is possible that the IRS may conclude that the value of the Company's interests in the Company's TRSs exceeds 20% of the value of the Company's total assets at the end of any calendar quarter and therefore cause the Company to fail to qualify as a REIT. Additionally, as a REIT, no more than 25% of the Company's gross income with respect to any year may be from sources other than real estate. Distributions paid to the Company from a TRS are considered to be non-real estate income. Therefore, the Company may fail to qualify as a REIT if distributions from all of the Company's TRSs, when aggregated with all other non-real estate income with respect to any one year, are more than 25% of the Company's gross income with respect to such year.

The Company may be subject to tax on the sale of a property.

Any gain that the Company realizes on the sale of a property, other than foreclosure property, held as inventory or otherwise primarily for sale to customers in the ordinary course of a trade or business, may be treated as income attributable to a prohibited transaction and subject to a 100% tax. Whether property is held primarily for sale to customers in the ordinary course of a REIT's trade or business depends on all the facts and circumstances surrounding the particular transaction. The Company does not believe it should be viewed as having held any of such properties as inventory or otherwise primarily for sale to customers, and as such does not believe that the sale of any of its properties should be subject to the 100% tax. However, the Company can give no assurances that the IRS may disagree and contend that the sale of one or more of its properties is subject to the 100% tax.

Investors may have current tax liability on distributions investors elect to reinvest in the Company's common stock.

Investors who participate in the Company's Reinvestment Plan will be deemed to have received, and for income tax purposes will be taxed on, the amount reinvested in shares of the Company's common stock to the extent the amount reinvested was not a tax-free return of capital. In addition, investors will be treated for tax purposes as having received an additional distribution to the extent the shares are purchased at a discount to fair market value. As a result, unless investors are tax-exempt entities, investors may have to use funds from other sources to pay a tax liability on the value of the shares of common stock received.

If the Company's operating partnership fails to maintain its status as a partnership, the operating partnership's income may be subject to taxation, which would reduce the cash available to the Company for distribution to its stockholders.

The Company maintains the status of its operating partnership as either a disregarded entity or an entity taxable as a partnership for federal income tax purposes. However, if the IRS were to successfully challenge the status of the operating partnership as a disregarded entity or an entity taxable as a partnership, the Company's operating partnership would be taxable as a corporation. In such event, this would reduce the amount of distributions that the operating partnership could make to the Company. Additionally, this could also result in the Company's failure to qualify as a REIT, and becoming subject to a corporate level tax on the Company's taxable income. This would substantially reduce the cash available to the Company to pay distributions and the return on an investment. In addition, if any of the partnerships or limited liability companies through which the Company's operating partnership owns its properties, in whole or in part, loses its characterization as a partnership or disregarded entity for federal income tax purposes, it would be subject to taxation as a corporation, thereby reducing distributions to the Company's operating partnership. Such a re-characterization of an underlying property owner could also threaten the Company's ability to maintain REIT status.

Tax related legislative or regulatory action could adversely affect the Company or an investment in the Company.

In recent years, numerous legislative, judicial and administrative changes have been made in the provisions of the federal income tax laws applicable to investments similar to an investment in shares of the Company's common stock. For example, the Tax Act was signed into law on December 22, 2017, and made fundamental changes to the taxation of individuals and corporations, generally effective for taxable years beginning on or after January 1, 2018. The individual and collective impact of the changes introduced by the Tax Act on REITs and their stockholders remains uncertain in some respects and may not become evident for some period of time. For more information about the tax law changes enacted by the Tax Act, see "Part I—Statement Regarding Forward Looking Information—Item 1—Business—Taxation."

Additional changes to the tax laws are likely to continue to occur, and the Company cannot assure investors that any such changes will not adversely affect the taxation of the Company's stockholders. Any such changes could have an adverse effect on an investment in the Company's shares or on the market value or the resale potential of the Company's assets. Investors are urged to consult with their own tax advisor with respect to the impact of recent legislation, including the Tax Act, and the status of legislative, regulatory or administrative developments on an investment in the Company's shares.

Although REITs continue to receive favorable tax treatment (e.g., a deduction for dividends paid), it is possible that future legislation would result in a REIT having fewer tax advantages, and it could become more advantageous for a company that invests in real estate to elect to be taxed for U.S. federal income tax purposes as a corporation. As a result, the Company's charter provides its board of directors with the power, under certain circumstances, to revoke or otherwise terminate its REIT election and cause the Company to be taxed as a corporation, without the vote of the Company's stockholders. The Company's board of directors has fiduciary duties to the Company and the Company's stockholders in accordance with the Maryland General Corporation Law and could only cause such changes in the Company's tax treatment if it determines in good faith that such changes are in the best interest of its stockholders.

The lease of qualified health care properties to a TRS is subject to special requirements.

The Company leases certain qualified health care properties to TRSs (or limited liability companies of which the TRSs are members), which lessees contract with managers (or related parties) to manage the health care operations at these properties. The rents from this TRS lessee structure are treated as qualifying rents from real property if (1) they are paid pursuant to an arm's-length lease of a qualified health care property with a TRS and (2) the manager qualifies as an eligible independent contractor (as defined in the Code). If any of these conditions are not satisfied, then the rents will not be qualifying rents and the Company might fail to meet the 95% and 75% gross income tests.

Risks Related to Investments by Tax-Exempt Entities and Benefit Plans Subject to the Employee Retirement Income Security Act ("ERISA")

If the Company's assets are deemed "plan assets" for the purposes of ERISA, the Company could be subject to excise taxes on certain prohibited transactions.

The Company believes that the Company's assets will not be deemed to be "plan assets" for purposes of ERISA and/or the Code, but the Company has not requested an opinion of counsel to that effect, and no assurances can be given that the Company's assets will never constitute "plan assets." If the Company's assets were deemed to be "plan assets" for purposes of ERISA and/or the Code, among other things, (a) certain of the Company's transactions could constitute "prohibited transactions" under ERISA and the Code, and (b) ERISA's prudence and other fiduciary standards would apply to the Company's investments (and might not be met). Among other things, ERISA makes plan fiduciaries personally responsible for any losses resulting to the plan from any breach of fiduciary duty, and the Code imposes nondeductible excise taxes on prohibited transactions. If such excise taxes were imposed on the Company, the amount of funds available for the Company to make distributions to stockholders would be reduced.

Risks Related to the Company's Organizational Structure

The limit on the percentage of shares of the Company's stock that any person may own may discourage a takeover or business combination that may benefit the Company's stockholders.

The Company's charter restricts the direct or indirect ownership by one person or entity to no more than 9.8%, by number or value, of any class or series of the Company's equity securities (which includes common stock and any preferred stock the Company may issue). This restriction may deter individuals or entities from making tender offers for shares of the Company's common stock on terms that might be financially attractive to stockholders or which may cause a change in the Company's management. This ownership restriction may also prohibit business combinations that would have otherwise been approved by the Company's board of directors and stockholders and may also decrease their ability to sell their shares of the Company's common stock.

The Company's board of directors can take many actions without stockholder approval which could have a material adverse effect on the distributions investors receive from the Company and/or could reduce the value of the Company's assets.

The Company's board of directors has overall authority to conduct the Company's operations. This authority includes significant flexibility. For example, the Company's board of directors can: (i) list the Company's stock on a national securities exchange or include its stock for quotation on the National Market System of the NASDAQ Stock Market without obtaining stockholder approval; (ii) prevent the ownership, transfer and/or accumulation of shares in order to protect the Company's status as a REIT or for any other reason deemed to be in the best interests of the stockholders; (iii) authorize and issue additional shares of any class or series of stock without obtaining stockholder approval, which could dilute an ownership interest; (iv) change the Company's Advisor's compensation, and employ and compensate affiliates; (v) direct the Company's investments toward those that will not appreciate over time, such as loans and building-only properties, with the land owned by a third-party; and (vi) establish and change minimum creditworthiness standards with respect to tenants. Any of these actions could reduce the value of the Company's assets without giving investors, as stockholders, the right to vote.

Investors will be limited in their right to bring claims against the Company's officers and directors.

The Company's charter provides generally that a director or officer will be indemnified against liability as a director or officer so long as he or she performs his or her duties in accordance with the applicable standard of conduct and without negligence or misconduct in the case of the Company's officers and non-independent directors, and without gross negligence or willful misconduct in the case of the Company's independent directors. In addition, the Company's charter provides that, subject to the applicable limitations set forth therein or under Maryland law, no director or officer will be liable to the Company or the Company's stockholders for monetary or other damages. The Company's charter also provides that, with the approval of the Company's board of directors, the Company may indemnify the Company's employees and agents for losses they may incur by reason of their service in such capacities so long as they satisfy these requirements. The Company has entered into separate indemnification agreements with each of the Company's directors and executive officers. As a result, the Company and the Company's stockholders may have more limited rights against these persons than might otherwise exist under common law. In addition, the Company may be obligated to fund the defense costs incurred by these persons in some cases.

The Company's use of an operating partnership structure may result in potential conflicts of interest with limited partners other than the Company, if any, whose interests may not be aligned with those of the Company's stockholders.

Limited partners other than the Company, if any, in the Company's operating partnership will have the right to vote on certain amendments to the operating partnership agreement, as well as on certain other matters. Persons holding such voting rights may exercise them in a manner that conflicts with the interests of the Company's stockholders. As general partner of the Company's operating partnership, the Company is obligated to act in a manner that is in the best interest of all partners of the Company's operating partnership. Circumstances may arise in the future when the interests of other limited partners in the operating partnership may conflict with the interests of the Company's stockholders. These conflicts may be resolved in a manner stockholders do not believe are in their best interest.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2019, we had investments in 81 real estate investment properties, including the nine properties classified as held for sale, as described in Item 1. “Business” — “Possible Strategic Alternatives.” The following tables set forth details on our consolidated healthcare investment portfolio by asset class:

Name and Location	Structure	Date Acquired	Encumbrance at 12/31/2019 (in millions)	Investment Amount (in millions)
Acute Care ⁽¹⁾				
<i>Medical Portfolio I Properties</i>				
<i>Doctors Specialty Hospital</i> Leawood, KS ("Kansas City")	Modified Lease	8/16/2013	\$ —	\$ 10.0
<i>Medical Portfolio II Properties</i>				
<i>Hurst Specialty Hospital</i> Hurst, TX ("Dallas/Fort Worth")	Triple-net Lease	8/15/2014	—	29.5
Post-Acute Care ⁽¹⁾⁽⁴⁾				
<i>Perennial Communities</i>				
<i>Batesville Healthcare Center</i> Batesville, AR	Triple-net Lease	5/31/2013	—	6.2
<i>Broadway Healthcare Center</i> West Memphis, AR	Triple-net Lease	5/31/2013	—	11.9
<i>Jonesboro Healthcare Center</i> Jonesboro, AR	Triple-net Lease	5/31/2013	—	15.2
<i>Magnolia Healthcare Center</i> Magnolia, AR	Triple-net Lease	5/31/2013	—	11.8
<i>Mine Creek Healthcare Center</i> Nashville, AR	Triple-net Lease	5/31/2013	—	3.4
<i>Searcy Healthcare Center</i> Searcy, AR	Triple-net Lease	5/31/2013	—	7.9
<i>Cobalt Rehabilitation Hospital New Orleans</i> New Orleans, LA	Triple-net Lease	10/19/2016	—	28.6
Seniors Housing				
<i>Primrose I Communities</i>				
<i>Primrose Retirement Community of Casper</i> Casper, WY	Triple-net Lease	2/16/2012	11.0	19.0
<i>Sweetwater Retirement Community</i> Billings, MT	Triple-net Lease	2/16/2012	9.5	16.3
<i>Primrose Retirement Community of Grand Island</i> Grand Island, NE	Triple-net Lease	2/16/2012	7.8	13.4
<i>Primrose Retirement Community of Mansfield</i> Mansfield, OH	Triple-net Lease	2/16/2012	10.5	18.3
<i>Primrose Retirement Community of Marion</i> Marion, OH	Triple-net Lease	2/16/2012	8.8	17.9
<i>HarborChase of Villages Crossing</i> Lady Lake, FL ("The Villages")	Managed	8/29/2012	—	19.7
<i>Primrose II Communities</i>				
<i>Primrose Retirement Community of Lima</i> Lima, OH	Triple-net Lease	12/19/2012	—	18.6

Name and Location	Structure	Date Acquired	Encumbrance at 12/31/2019 (in millions)	Investment Amount (in millions)
<i>Primrose Retirement Community of Zanesville</i> Zanesville, OH ("Columbus")	Triple-net Lease	12/19/2012	10.9	19.1
<i>Primrose Retirement Community of Decatur</i> Decatur, IL	Triple-net Lease	12/19/2012	9.6	18.2
<i>Primrose Retirement Community of Council Bluffs</i> Council Bluffs, IA ("Omaha")	Triple-net Lease	12/19/2012	—	12.9
<i>Primrose Retirement Community Cottages</i> Aberdeen, SD	Triple-net Lease	12/19/2012	—	4.3
<i>Capital Health Communities</i>				
<i>Brookridge Heights Assisted Living & Memory Care</i> Marquette, MI	Managed	12/21/2012	12.0	18.5
<i>Curry House Assisted Living & Memory Care</i> Cadillac, MI	Managed	12/21/2012	7.1	13.5
<i>Symphony Manor</i> Baltimore, MD	Managed	12/21/2012	13.6	24.0
<i>Woodholme Gardens Assisted Living & Memory Care</i> Pikesville, MD ("Baltimore")	Managed	12/21/2012	6.1	17.1
<i>Tranquillity at Fredericktowne</i> Frederick, MD	Managed	12/21/2012	19.6	23.3
<i>HarborChase of Jasper</i> Jasper, AL	Managed	8/1/2013	—	7.3
<i>South Bay I Communities</i>				
<i>Raider Ranch</i> Lubbock, TX	Managed	8/29/2013	—	72.0
<i>Town Village</i> Oklahoma City, OK	Managed	8/29/2013	—	23.7
<i>Pacific Northwest I Communities</i>				
<i>MorningStar of Billings</i> Billings, MT	Managed	12/2/2013	18.6	48.3
<i>MorningStar of Boise</i> Boise, ID	Managed	12/2/2013	19.9	40.0
<i>MorningStar of Idaho Falls</i> Idaho Falls, ID	Managed	12/2/2013	16.6	44.4
<i>MorningStar of Sparks</i> Sparks, NV ("Reno")	Managed	12/2/2013	22.0	55.2
<i>Prestige Senior Living Arbor Place</i> Medford, OR	Managed	12/2/2013	7.8	15.8
<i>Prestige Senior Living Beaverton Hills</i> Beaverton, OR ("Portland")	Managed	12/2/2013	8.5	12.9
<i>Prestige Senior Living Five Rivers</i> Tillamook, OR	Managed	12/2/2013	7.3	16.7
<i>Prestige Senior Living High Desert</i> Bend, OR	Managed	12/2/2013	7.4	13.6
<i>Prestige Senior Living Huntington Terrace</i> Gresham, OR ("Portland")	Managed	12/2/2013	9.5	15.0
<i>Prestige Senior Living Orchard Heights</i> Salem, OR	Managed	12/2/2013	11.4	17.8
<i>Prestige Senior Living Riverwood</i> Tualatin, OR ("Portland")	Managed	12/2/2013	4.3	9.7

Name and Location	Structure	Date Acquired	Encumbrance at 12/31/2019 (in millions)	Investment Amount (in millions)
<i>Prestige Senior Living Southern Hills</i> Salem, OR	Managed	12/2/2013	7.1	12.9
<i>Pacific Northwest II Communities</i>				
<i>Prestige Senior Living Auburn Meadows</i> Auburn, WA ("Seattle")	Managed	2/3/2014	9.9	21.9
<i>Prestige Senior Living Bridgewood</i> Vancouver, WA ("Portland")	Managed	2/3/2014	12.5	22.1
<i>Prestige Senior Living Monticello Park</i> Longview, WA	Managed	2/3/2014	16.7	27.4
<i>Prestige Senior Living Rosemont</i> Yelm, WA	Managed	2/3/2014	8.8	16.9
<i>Prestige Senior Living West Hills</i> Corvallis, OR	Managed	3/3/2014	8.3	15.0
<i>Wellmore of Tega Cay</i> Tega Cay, SC ("Charlotte")	Triple-net Lease	2/7/2014	—	32.2
<i>South Bay II Communities</i>				
<i>Isle at Cedar Ridge</i> Cedar Park, TX ("Austin")	Managed	2/28/2014	—	22.0
<i>HarborChase of Plainfield</i> Plainfield, IL	Managed	3/28/2014	—	26.5
<i>Legacy Ranch Alzheimer's Special Care Center</i> Midland, TX	Managed	3/28/2014	—	12.0
<i>The Springs Alzheimer's Special Care Center</i> San Angelo, TX	Managed	3/28/2014	—	10.9
<i>Isle at Watercrest - Bryan</i> Bryan, TX	Managed	4/21/2014	—	50.4
<i>Isle at Watercrest - Mansfield</i> Mansfield, TX ("Dallas/Fort Worth")	Managed	5/5/2014	—	31.3
<i>Watercrest at Mansfield</i> Mansfield, TX ("Dallas/Fort Worth")	Managed	6/30/2014	24.6	49.0
<i>Watercrest at Katy</i> ⁽²⁾ Lubbock, TX	Managed	6/27/2014	21.3	37.2
<i>HarborChase of Shorewood</i> Shorewood, WI ("Milwaukee")	Managed	7/8/2014	—	23.8
<i>Fairfield Village of Layton</i> Layton, UT ("Salt Lake City")	Managed	11/20/2014	—	68.0
<i>Fieldstone Memory Care</i> Yakima, WA	Managed	3/31/2015	—	12.4
<i>Primrose III Communities</i>				
<i>Primrose Retirement Community of Anderson</i> Anderson, IN ("Muncie")	Triple-net Lease	5/29/2015	—	21.1
<i>Primrose Retirement Community of Lancaster</i> Lancaster, OH ("Columbus")	Triple-net Lease	5/29/2015	—	25.7
<i>Primrose Retirement Community of Wausau</i> Wausau, WI ("Green Bay")	Triple-net Lease	5/29/2015	—	20.3
<i>Superior Residences of Panama City</i> Panama City Beach, FL	Managed	7/15/2015	—	20.0
<i>Southeast Seniors Housing Communities</i>				
<i>Parc at Duluth</i> Duluth, GA ("Atlanta")	Managed	7/31/2015	—	52.8

Name and Location	Structure	Date Acquired	Encumbrance at 12/31/2019 (in millions)	Investment Amount (in millions)
<i>Parc at Piedmont</i> Marietta, GA ("Atlanta")	Managed	7/31/2015	—	50.8
<i>The Pavilion at Great Hills</i> Austin, TX	Managed	7/31/2015	—	35.0
<i>The Hampton at Meadows Place</i> Meadows Place, TX ("Houston")	Managed	7/31/2015	—	28.4
<i>The Beacon at Gulf Breeze</i> Gulf Breeze, FL ("Pensacola")	Managed	7/31/2015	—	28.0
<i>Waterstone on Augusta</i> Greenville, SC	Managed	8/31/2015	—	26.8
<i>Wellmore of Lexington</i> Lexington, SC ("Columbia")	Triple-net Lease	9/14/2015	—	53.7
<i>Palmilla Senior Living</i> Albuquerque, NM	Managed	9/30/2015	—	47.6
<i>Cedar Lake Assisted Living and Memory Care</i> Lake Zurich, IL ("Chicago")	Managed	9/30/2015	—	30.0
<i>Fieldstone at Pear Orchard</i> ⁽⁴⁾ Yakima WA	Managed	10/15/2015	8.3	14.3
<i>The Shores of Lake Phalen</i> Maplewood, MN ("St. Paul")	Managed	11/10/2015	—	29.2
<i>The Dogwood Forest of Grayson</i> Grayson, GA	Managed	11/24/2015	—	25.7
<i>Park Place Senior Living at WingHaven</i> O'Fallon, MO ("St Louis")	Managed	12/17/2015	—	54.0
Hearthside Senior Living of Collierville Collierville, TN ("Memphis")	Managed	12/29/2015	—	17.0
Unimproved Land				
Albuquerque NM, Land Owner Albuquerque, NM	Managed	9/7/2017	—	1.1
			\$ 377.3	\$ 1,864.4

FOOTNOTES:

- (1) Properties herein have been classified as held for sale as of December 31, 2019.
- (2) Property owned through a consolidated joint venture in which we hold a 95% controlling interest.
- (3) Property owned through a consolidated joint venture in which we hold a 75% controlling interest.
- (4) Properties were sold as of March 25, 2020.

As of December 31, 2019, through an unconsolidated joint venture (“JV”), we had investments in five real estate properties. The following tables set forth details on the property holdings of our JV:

Name	Structure	Date Acquired	Encumbrance at 12/31/19 (in millions)	Investment Amount (in millions)
Seniors Housing				
<i>Windsor Manor I Communities - 75% JV Interest</i>				
Windsor Manor of Vinton Vinton, IA	Managed	8/31/2012	\$ 3.0	\$ 5.8
Windsor Manor of Webster City Webster City, IA	Managed	8/31/2012	2.7	6.8
Windsor Manor of Nevada Nevada, IA	Managed	8/31/2012	6.0	6.3
<i>Windsor Manor II Communities - 75% JV Interest</i>				
Windsor Manor of Indianola Indianola, IA	Managed	4/2/2013	5.7	5.7
Windsor Manor of Grinnell Grinnell, IA	Managed	4/2/2013	2.3	6.5
			<u>\$ 19.7</u>	<u>\$ 31.1</u>

Item 3. LEGAL PROCEEDINGS

From time to time, we may be a party to legal proceedings in the ordinary course of, or incidental to the normal course of, our business, including proceedings to enforce our contractual or statutory rights. While we cannot predict the outcome of these legal proceedings with certainty, based upon currently available information, we do not believe the final outcome of any pending or threatened legal proceeding will have a material adverse effect on our results of operations or financial condition.

Item 4. MINE SAFETY DISCLOSURES

None.

PART II

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

Market Information

There is no established public trading market for our common stock. Therefore, there is a risk that a stockholder may not be able to sell shares at a time or price acceptable to the stockholder, or at all. Unless and until our shares are listed on a national securities exchange, it is not expected that a public market for the shares will develop.

Our board of directors has adopted a valuation policy substantially consistent with the IPA Valuation Guideline. The valuation process used by the Valuation Committee and the board of directors to determine the estimated NAV per share was designed to follow recommendations in the IPA Valuation Guideline and our valuation policy.

During the year ended December 31, 2019, our board of directors initiated a process to estimate the Company's NAV per share as of December 31, 2019 ("Valuation Date") and engaged Stanger to provide a report containing, among other things, a range for the estimated NAV per share of our common stock as of the Valuation Date ("Valuation Report"). The engagement of Stanger was based on a number of factors including Stanger's experience in the valuation of assets similar to those we own. Upon receipt of the Valuation Report from Stanger, which contained, among other information, a range for the estimated NAV per share for our common stock, our Valuation Committee considered the reasonableness of the range of per share values in order to make a recommendation to our board of directors. On March 23, 2020, our board of directors accepted the recommendation of our Valuation Committee and approved an estimated 2019 NAV of \$7.81, which includes deductions for estimated transaction costs.

For additional information on the determination of our estimated NAV, please refer to our Current Report on Form 8-K filed with the SEC on March 25, 2020.

Stockholder Information

As of December 31, 2019, we had 45,819 stockholders of record. The number of stockholders is based on the records of DST Systems, Inc., who serves as our transfer agent.

Redemption Plan

Our Redemption Plan, through its suspension as further discussed below, was designed to provide eligible stockholders with limited interim liquidity by enabling them to sell shares back to us prior to any liquidity event. Proceeds from our Reinvestment Plan were the primary source of available funds for redemption requests under the Redemption Plan on a quarterly basis with additional sources for excess redemption requests determined by our board of directors in accordance with our Redemption Plan.

In July 2018, in light of the Company's decision to proceed with the exploration of Possible Strategic Alternatives, our board of directors suspended our Reinvestment Plan and our Redemption Plan. No requests for redemptions have been accepted subsequent to suspension of the Redemption Plan. As such, there were no requests for the redemption of common stock during the year ended December 31, 2019. During the year ended December 31, 2018, we received requests through the suspension of our Redemption Plan for the redemption of approximately \$44.8 million of our common stock, which exceeded proceeds received from our Reinvestment Plan by approximately \$22.8 million. Of the excess \$22.8 million in redemption requests, approximately \$6.3 million of the excess redemption requests related to the quarter ended March 31, 2018 were approved by our board of directors prior to our Redemption Plan's suspension, while the approximate \$16.4 million (1.6 million shares) of remaining excess redemptions requests were placed in a redemption requests queue pursuant to our Redemption Plan. The unsatisfied redemption requests placed in the redemption queue will remain there until such time, if at all, that our board of directors reinstates our Redemption Plan. Unless our Redemption Plan is reinstated by our board of directors, we will not as a general matter accept or otherwise process any additional redemption requests received after July 11, 2018. There can be no guarantee that our Redemption Plan will be reinstated by our board of directors.

For the years ended December 31, 2018 and 2017, we received requests for the redemption of common stock under our Redemption Plan of approximately 4.4 million and 4.7 million, respectively, of which, 2.8 million and 4.7 million were approved for redemption at an average price of \$10.14 and \$9.99, respectively, and for a total of approximately \$28.4 million and \$47.3 million, respectively.

Distributions

Distributions to our stockholders are governed by the provisions of our articles of incorporation. We intend to continue paying distributions to our stockholders on a quarterly basis until such provisions are terminated or amended by our board of directors. The amount or basis of distributions declared to our stockholders will be determined by our board of directors and is dependent upon a number of factors, including:

- sources of cash available for distribution such as current year and inception to date cumulative cash flows from operating activities, net sales proceeds from sales of properties as part of executing under our possible strategic alternatives process as described above in Item 1. “Business – Possible Strategic Alternatives”, FFO and MFFO, as well as expected future long-term cash flows, FFO and MFFO;
- limitations and restrictions contained in the terms of our current and future indebtedness concerning the payment of distributions; and
- other factors, including but not limited to, the avoidance of distribution volatility, our objective of continuing to qualify as a REIT, capital requirements, the general economic environment and other factors.

As part of executing under our Possible Strategic Alternatives, as described above in Item 1. “Business” – “Possible Strategic Alternatives,” in May 2019, we used a portion of the net sales proceeds from the MOB Sale to make a special cash distribution of \$347.9 million (\$2.00 per share) to our stockholders. Additionally, as a result of the sale of 59 properties from the IRF Sale and the MOB Sale, our board of directors adjusted our regular quarterly cash distribution to an amount equal to \$0.0512 per share, compared to \$0.1164 per share in effect since the third quarter of 2017. The adjustment to our regular cash distributions was the result of a reduction in our remaining earnings base and operating cash flows given the associated impact of the sale of real estate.

The table in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” presents total regular and special cash distributions declared and issued, including distributions reinvested in additional shares through our Reinvestment Plan, and cash flows provided by operating activities for each quarter in the years ended December 31, 2019, 2018 and 2017.

The following details our historical price per share as well as our monthly cash distributions and stock dividends per share (in thousands, except per share data):

<u>Period</u>	<u>Price per Share⁽¹⁾</u>	<u>Reinvestment Plan Price per Share</u>	<u>Monthly Cash Distributions</u>	<u>Monthly Stock Dividends</u>
June 27, 2011 through December 10, 2013	\$ 10.00	\$ 9.50	\$ 0.0333	0.0025
December 11, 2013 through November 3, 2014	\$ 10.14	\$ 9.64	\$ 0.0338	0.0025
November 4, 2014 through September 30, 2015	\$ 10.58	\$ 10.06	\$ 0.0353	⁽²⁾
October 1, 2015 through February 10, 2016	\$ 9.52	\$ 10.06	\$ 0.0353	—
February 11, 2016 and February 7, 2017	\$ 9.75	\$ 9.75	\$ 0.0353	—
February 8, 2017 through February 6, 2018	\$ 10.04	\$ 10.04	\$ ⁽³⁾	—
February 7, 2018 through March 12, 2019	\$ 10.32	\$ ⁽⁴⁾	\$ 0.0388	—
March 13, 2019 through May 20, 2019	\$ 10.01	\$ —	\$ ⁽⁵⁾	—
May 21, 2019 through March 22, 2020	\$ 7.99	\$ —	\$ 0.0171	—
March 23, 2020 through the date of this filing	\$ 7.81	\$ —	\$ 0.0171	—

FOOTNOTES:

- (1) Through the close of our Offerings on September 30, 2015, price per share represents the then-current primary offering price per share. Subsequently, price per share represents the estimated NAV per share as determined by our board of directors.
- (2) We closed our Offerings on September 30, 2015 and discontinued our stock dividends concurrently. The monthly stock dividends from November 4, 2014 through September 30, 2015 were 0.0025 per share.
- (3) In September 2017, our board of directors approved an increase in our monthly cash distribution, from \$0.03527 to \$0.0388 per share, effective for the third quarter of 2017.
- (4) Effective July 11, 2018, we suspended our Reinvestment Plan. From February 13, 2018 through July 11, 2018, our Reinvestment Plan price per share was \$10.32.
- (5) In May 2019, our board of directors approved a decrease in our monthly cash distribution, from \$0.0388 to \$0.01706 per share, effective for the second quarter of 2019.

The tax composition of our distributions declared for years ended December 31, 2019, 2018 and 2017 were as follows:

	Years Ended December 31,		
	2019	2018	2017
Ordinary income	0.0%	0.0%	0.0%
Capital gain	42.85%	0.0%	0.0%
Unrecaptured Sec. 1250 gain	20.10%	0.0%	0.0%
Return of capital	37.05%	100.0%	100.0%

Due to a variety of factors, the characterization of distributions declared for the year ended December 31, 2019 may not be indicative of the characterization of distributions that may be expected for the year ending December 31, 2020. In determining the apportionment between taxable income and return of capital, the amounts distributed to stockholders (other than amounts designated as capital gains dividends) in excess of current or accumulated E&P are treated as a return of capital to the stockholders. E&P is a statutory calculation which is derived from net income and determined in accordance with the Code. It is not intended to be a measure of the REIT's performance, nor do we consider it to be an absolute measure or indicator of our source or ability to pay distributions to stockholders. No amounts distributed to stockholders for the years ended December 31, 2019, 2018 and 2017 were required to be or have been treated as return of capital for purposes of calculating the stockholders' return on their invested capital as described in our advisory agreement.

Unregistered Sales of Equity Securities

None.

Securities Authorized for Issuance under Equity Compensation Plans

None.

Secondary Sales of Registered Shares between Investors

During years ended December 31, 2019, 2018 and 2017, there were approximately 343,000 shares, 192,000 shares and 26,000 shares transferred between investors, respectively, at an average sales price per share of approximately \$6.37, \$7.60 and \$8.25, respectively. We are not aware of any other trades of our shares, other than previous purchases made in our Offerings and/or redemptions of shares by us.

Item 6. SELECTED FINANCIAL DATA

The following selected financial data for the Company should be read in conjunction with Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Item 8. “Financial Statements and Supplementary Data” (in thousands, except per share data):

	Years Ended December 31,				
	2019	2018	2017	2016	2015
Operating Data:					
Total revenues	\$ 321,891	\$ 311,594	\$ 284,707	\$ 265,199	\$ 209,535
Operating income (loss)	37,791	23,989	8,591	7,155	(26,099)
Loss from continuing operations	(1,541)	(20,742)	(18,539)	(24,835)	(53,150)
Loss from continuing operations per share	(0.01)	(0.12)	(0.11)	(0.14)	(0.35)
Weighted average shares outstanding (basic and diluted) ⁽¹⁾	173,963	174,247	175,151	175,121	153,804
Cash distributions declared and paid ⁽²⁾	394,892	81,064	77,732	74,008	63,201
Cash distributions declared and paid per share	2.27	0.47	0.44	0.42	0.41
Cash provided by operating activities	59,950	67,260	75,246	74,531	43,517
Cash provided by (used in) investing activities	1,353,528	(14,382)	(64,545)	(99,443)	(951,227)
Cash (used in) provided by financing activities	(1,430,442)	(62,068)	(7,248)	16,941	884,811
Other Data:					
FFO ⁽³⁾	65,061	72,462	82,247	76,560	44,059
FFO per share	0.37	0.42	0.47	0.44	0.29
MFFO ⁽³⁾	68,760	71,062	82,446	74,008	63,484
MFFO per share	0.40	0.41	0.47	0.42	0.41

	As of December 31,				
	2019	2018	2017	2016	2015
Balance Sheet Data:					
Cash	\$ 42,350	\$ 57,109	\$ 64,522	\$ 58,517	\$ 68,922
Total assets	1,616,436	2,705,887	2,793,541	2,827,692	2,831,169
Total indebtedness	678,878	1,704,584	1,662,219	1,578,712	1,488,109
Total liabilities	715,405	1,763,961	1,740,881	1,672,875	1,572,067
Redeemable noncontrolling interest	558	579	425	472	551
Total equity	901,031	941,926	1,052,660	1,154,817	1,259,102

FOOTNOTES:

- (1) For purposes of determining the weighted average number of shares of common stock outstanding, stock dividends are treated as if they were outstanding as of the beginning of each period presented. For the year ended December 31, 2015, we declared and paid stock dividends of approximately 3.2 million shares of common stock. We closed our Offerings on September 30, 2015 and discontinued our stock dividends concurrently. The issuance of common shares to the recipients is non-taxable.
- (2) For the years ended December 31, 2019, 2018, 2017, 2016 and 2015, our net income (loss) attributable to common stockholders was approximately \$351.5 million, (\$25.1 million), (\$26.0 million), (\$31.7 million), and (\$68.1 million), respectively, while cash distributions declared were approximately \$394.9 million, \$81.1 million, \$77.7 million, \$74.0 million and \$63.2 million, respectively, and total distributions declared were approximately \$394.9 million, \$81.1 million, \$77.7 million, \$74.0 million and \$97.0 million, respectively. Distributions for the year ended December 31, 2019, included a special cash distribution of approximately \$347.9 million, funded from net sales proceeds received from the sale of properties during the year ended December 31, 2019. For the years ended December 31, 2019, 2018, 2017, 2016 and 2015, (excluding the special cash distribution paid during the year ended December 31, 2019) approximately 100%, 83.0%, 91%, 94%, and 69%, respectively, of cash distributions declared to stockholders were considered to be funded with cash provided by operating activities as calculated on a quarterly basis for GAAP purposes and approximately 0%, 17.0%, 9%, 6% and 31%, respectively, were considered to be funded with Other Sources. For the years ended December 31, 2019, 2018, 2017, 2016 and 2015, (excluding the special cash distribution paid during the year ended December 31, 2019) approximately 100%, 83.0%, 91%, 94% and 45%, respectively, of total distributions declared to stockholders were considered to be funded with cash provided by operating activities as calculated on a quarterly basis for GAAP purposes and approximately 0%, 17.0%, 9%, 6% and 55%, respectively, of total distributions declared to stockholders were considered to be funded with Other Sources.
- (3) Due to certain unique operating characteristics of real estate companies, as discussed below, National Association of Real Estate Investment Trusts, (“NAREIT”), promulgated a measure known as FFO, which we believe to be an appropriate supplemental measure to reflect the operating performance of a REIT. The use of FFO is recommended by the REIT industry as a supplemental performance measure but is not equivalent to net income (loss) as determined under GAAP.

We define FFO, a non-GAAP measure, consistent with the standards approved by the Board of Governors of NAREIT. NAREIT defines FFO as net income or loss computed in accordance with GAAP, excluding gains or losses from sales of property, asset impairment write-downs, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Our FFO calculation complies with NAREIT’s policy described above.

We define MFFO, a non-GAAP measure, consistent with the IPA, an industry trade group, Guideline 2010-01, Supplemental Performance Measure for Publicly Registered, Non-Listed REITs: MFFO, and the Practice Guideline, issued by the IPA in November 2010. The Practice Guideline defines MFFO as FFO further adjusted for the following items, as applicable, included in the determination of GAAP net income (loss): acquisition fees and expenses; amounts relating to deferred rent receivables and amortization of above and below market leases and liabilities (which are adjusted in order to remove the impact of GAAP straight-line adjustments from rental revenues); accretion of discounts and amortization of premiums on debt investments, mark-to-market adjustments included in net income; gains or losses included in net income from the extinguishment or sale of debt, hedges, foreign exchange, derivatives or securities holdings where trading of such holdings is not a fundamental attribute of the business plan, and unrealized gains or losses resulting from consolidation from, or deconsolidation to, equity accounting and after adjustments for consolidated and unconsolidated partnerships and joint ventures, with such adjustments calculated to reflect MFFO on the same basis.

FFO and MFFO are not necessarily indicative of cash flows available to fund cash needs and should not be considered (i) as an alternative to net income (loss), or net income (loss) from continuing operations, as an indication of our performance, (ii) as an alternative to cash flows from operating activities as an indication of our liquidity, or (iii) as indicative of funds available to fund our cash needs including our ability to make distributions to our stockholders. FFO and MFFO should not be construed as more relevant or accurate than the current GAAP methodology in calculating net income (loss) and its applicability in evaluating our operating performance.

For additional disclosures relating to FFO and MFFO, including a reconciliation of net loss to FFO and MFFO, for the years ended December 31, 2019, 2018 and 2017, refer to Item 7. “Management Discussion and Analysis of Financial Condition and Results of Operations” and for the years ended December 31, 2016 and 2015, refer to our Form 10-K filed on March 16, 2017.

Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

CNL Healthcare Properties, Inc. is a Maryland corporation that incorporated on June 8, 2010. We elected to be taxed as a REIT for U.S. federal income tax purposes beginning with the year ended December 31, 2012 and our intention is to be organized and operate in a manner that allows us to remain qualified as a REIT for federal income tax purposes. The terms “us,” “we,” “our,” “Company” and “CNL Healthcare Properties” include CNL Healthcare Properties, Inc. and each of its subsidiaries.

Substantially all of our assets are held by, and all operations are conducted, either directly or indirectly, through: (1) the Operating Partnership in which we are the sole limited partner and our wholly owned subsidiary, CHP GP, LLC, is the sole general partner; (2) a wholly owned TRS, CHP TRS Holding, Inc.; (3) property owner subsidiaries and lender subsidiaries, which are single purpose entities; and (4) investments in joint ventures.

We are externally managed and advised by CNL Healthcare Corp. (the “Advisor”). Our Advisor has responsibility for our day-to-day operations, serving as our consultant in connection with policy decisions to be made by our board of directors, and for identifying, recommending and executing on Possible Strategic Alternatives (as described below under “Possible Strategic Alternatives”), and dispositions on our behalf pursuant to an advisory agreement. In May 2019, we extended the advisory agreement with our Advisor through June 2020. For additional information on our Advisor, its affiliates or other related parties, as well as the fees and reimbursements we pay, see Note 11. “Related Party Arrangements.”

On September 30, 2015, we completed our Offerings and received aggregate subscription proceeds of approximately \$1.7 billion. In October 2015, we deregistered the unsold shares of our common stock under our previous registration statement on Form S-11, except for 20 million shares that we registered on Form S-3 under the Securities Exchange Act of 1933 with the SEC for the sale of additional shares of common stock through our Reinvestment Plan. As part of moving forward with the consideration of Possible Strategic Alternatives, effective July 11, 2018, we suspended our Reinvestment Plan and, effective with the suspension of our Reinvestment Plan, stockholders who were participants in our Reinvestment Plan now receive cash distributions instead of additional shares of our common stock.

We substantially completed our acquisition stage in 2016 and invested in a healthcare portfolio consisting of 142 seniors housing property asset classes, medical office buildings, acute care and post-acute care property asset classes. As part of executing under Possible Strategic Alternatives to provide liquidity to our stockholders, we classified 70 properties as held for sale and during 2019, sold 61 of our medical office buildings, acute care and post-acute care properties and skilled nursing facilities. As of December 31, 2019, our healthcare investment portfolio consisting of 81 properties was geographically diversified with properties in 27 states with interests in 72 seniors housing properties and nine properties classified as held for sale (which included six skilled nursing facilities, one post-acute care facility and two acute care hospitals). For a description of the individual properties included in our healthcare investment portfolio, including the location, date acquired, and amount invested, as of December 31, 2019, see Item 2. “Properties.”

COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (“COVID-19”) as a pandemic, which continues to spread throughout the United States. The Company could be materially and adversely affected by the risks, or the public perception of the risks, related to an epidemic, pandemic, outbreak, or other public health crisis, such as the recent outbreak of COVID-19. The ultimate extent of the impact of any epidemic, pandemic or other health crisis on our business, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of such epidemic, pandemic or other health crisis and actions taken to contain or prevent their further spread, among others. Accordingly, we cannot predict the extent to which our financial condition and results of operations will be affected.

As described below in “Liquidity and Capital Resources”, as of December 31, 2019, we had approximately \$42.4 million in cash, had approximately \$181.7 million of availability under our Revolving Credit Facility and through March 25, 2020, had received net sales proceeds of approximately \$82.8 million from the sale of seven properties that we had classified as held for sale. We remain focused on maintaining a strong balance sheet, liquidity and financial flexibility and continue to monitor developments as we deal with the disruptions and uncertainties from a business and financial perspective relating to COVID-19.

Possible Strategic Alternatives

In 2017, we began evaluating possible strategic alternatives to provide liquidity to the Company’s stockholders. In April 2018, our board of directors formed a special committee consisting solely of our independent directors (“Special Committee”) to consider possible strategic alternatives, including, but not limited to (i) the listing of the Company’s or one of its subsidiaries’ common stock on a national securities exchange, (ii) an orderly disposition of the Company’s assets or one or more of the Company’s asset classes and the distribution of the net sale proceeds thereof to the stockholders of the Company and (iii) a potential business combination or other transaction with a third-party or parties that provides the stockholders of the Company with cash and/or securities of a publicly traded company (collectively, among other options, “Possible Strategic Alternatives”). During 2018, the Special Committee engaged HFF Securities L.P. (through June 2019) and KeyBanc Capital Markets Inc. to act as financial advisors in connection with exploring our Possible Strategic Alternatives.

In connection with our consideration of the Possible Strategic Alternatives, our board of directors suspended both our Reinvestment Plan and our Redemption Plan effective July 11, 2018. As part of executing on Possible Strategic Alternatives, in September 2018, our board of directors committed to a plan to sell the MOB/Healthcare Portfolio, a portfolio of 63 properties consisting of 53 MOBs, five post-acute care facilities and five acute care hospitals across the US. In December 2018, we also committed to a plan to sell our Welbrook Senior Living Grand Junction property, our skilled nursing facility in Grand Junction, Colorado. We had also previously committed to a plan to sell our six skilled nursing facilities in Arkansas. As of December 31, 2018, we had a total of 70 properties classified as held for sale and had classified the operations of the 63 properties in the MOB/Healthcare Portfolio as discontinued operations because the sale of these properties represented a strategic shift in our operations.

In April 2019, we completed the sale of four post-acute care properties (“IRF Sale”) to an unrelated third party. In May 2019, we completed the sale of 55 medical office buildings and related properties (“MOB Sale”), to a subsidiary of Welltower Inc. and received approximately \$1,321.2 million in net sales proceeds. Both the IRF Sale and the MOB Sale were in furtherance of our efforts to sell the MOB/Healthcare Portfolio. We used the net sales proceeds to: (1) repay indebtedness secured by or allocated to the 59 properties comprising the MOB Sale and the IRF Sale; (2) strategically rebalance other corporate borrowings; (3) make a special cash distribution of \$347.9 million (\$2.00 per share) to our stockholders and (4) for other corporate purposes. Additionally, as a result of the IRF Sale and the MOB Sale, our board of directors adjusted our regular quarterly cash distribution to an amount equal to \$0.0512 per share, compared to \$0.1164 per share that had been in effect since the third quarter of 2017. The adjustment to our regular cash distributions was the result of a reduction in our remaining earnings base and operating cash flows given the associated impact of the sale of real estate on our operating cash flows. In June 2019 subsequent to the consummation of the MOB Sale, we terminated our engagement of HFF Securities L.P., one of the financial advisors to our Special Committee in connection with exploring Possible Strategic Alternatives, subject to a 12-month tail of certain fees and obligations under the terminated engagement letter. During the last half of 2019, we sold one acute care hospital from the MOB/Healthcare Portfolio plus the Welbrook Senior Living Grand Junction property to unrelated third parties and received net sales proceeds of \$39.0 million. As of December 31, 2019, we had nine properties classified as held for sale.

In December 2019, we entered into a purchase and sale agreement for the sale of our six skilled nursing facilities in Arkansas (the “Perennial Communities Sale Agreement”) with an unrelated third party for a gross sales price of \$55.0 million, subject to certain pro-rations and other adjustments, as described in the Perennial Communities Sale Agreement. The anticipated net sales proceeds from the Perennial Communities were expected to exceed the net carrying values of these properties. In addition, in December 2019, we entered into a purchase and sale agreement with an unrelated third party for our acute care hospital in New Orleans (the “New Orleans Sale Agreement”) for a gross sales price of \$28.65 million, subject to certain pro-rations and other adjustments as described in the New Orleans Sale Agreement. We recorded an impairment provision of \$0.1 million related to the property in New Orleans to write-off the associated assets in excess of the estimated net sales proceeds, as it was determined that the carrying value of this property would not be recoverable. In February and March 2020, we sold the property related to the New Orleans Sale Agreement and the six properties related to the Perennial Communities Sale Agreement, respectively. During 2020, we intend to continue executing on our plan to sell the remaining two properties that we had classified as held for sale as of December 31, 2019.

Seniors Housing Communities

We invested in or developed the following types of seniors housing properties:

Independent Living Facilities. Independent living facilities are age-restricted, multi-family rental or ownership (condominium) housing with central dining facilities that provide residents, as part of a monthly fee, meals and other services such as housekeeping, linen service, transportation, social and recreational activities.

Assisted Living Facilities. Assisted living facilities are usually state-regulated rental properties that provide the same services as independent living facilities, but also provide, in a majority of the units, supportive care from trained employees to residents who are unable to live independently and require assistance with activities of daily living. The additional services may include assistance with bathing, dressing, eating, and administering medications.

Memory Care/Alzheimer’s Facilities. Those suffering from the effects of Alzheimer’s disease or other forms of memory loss need specialized care. Memory care/Alzheimer’s centers provide the specialized care for this population including residential housing and assistance with the activities of daily living.

Liquidity and Capital Resources

General

Our ongoing primary sources of capital include proceeds from collateralized or uncollateralized financings from banks or other lenders, other assets and undistributed operating cash flows, and as part of executing on Possible Strategic Alternatives as described above under “Possible Strategic Alternatives,” proceeds from the sales of real estate. Our primary use of capital includes the payment of distributions, payment of operating expenses, funding capital improvements to existing properties and payment of debt service. If necessary, we may use financings or other sources of capital in the event of unforeseen significant capital expenditures or to cover periodic shortfalls between distributions paid and cash flows from operating activities. As of December 31, 2019, we had approximately \$42.4 million in cash available and had approximately \$181.7 million of undrawn availability under our Revolving Credit Facility.

We have pledged our properties in connection with our borrowings and may continue to strategically leverage our real estate and use debt financing as a means of providing additional funds for the payment of distributions to stockholders, working capital and for other corporate purposes. Our ability to increase our borrowings could be adversely affected by credit market conditions which result in lenders reducing or limiting funds available for loans, including loans collateralized by real estate. We may also be negatively impacted by rising interest rates on our unhedged variable rate debt or the timing of when we seek to refinance existing debt. In addition, we continue to evaluate the need for additional interest rate protection in the form of interest rate swaps or caps on unhedged variable rate debt.

Our cash flows from operating and investing activities as described within “Sources of Liquidity and Capital Resources” and “Uses of Liquidity and Capital Resources” represent cash flows from continuing operations and exclude the results from the 63 properties from our MOB/Healthcare Portfolio classified as discontinued operations.

The following discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and the notes thereto.

Sources of Liquidity and Capital Resources

Proceeds from Sale of Real Estate – Continuing Operations

During the year ended December 31, 2019, we sold a small parcel of vacant land at our Brookridge Heights Assisted Living & Memory Care property and as part of executing under our Possible Strategic Alternatives, sold our Grand Junction Property and received total net sales proceeds for both properties of approximately \$6.0 million. In May 2018, we completed the sale of Physicians Regional Medical Center – Central Wing (“Physicians Regional”) and received net sales proceeds of approximately \$5.8 million, which were used to pay down the related mortgage loan.

In March 2020, we closed on the sale of six properties under the Perennial Communities Sales Agreements and received net sales proceeds of \$54.4 million. We plan to retain the net sales proceeds for corporate purposes as we are focused on maintaining a strong balance sheet, liquidity and financial flexibility given the uncertainty relating to COVID-19.

Proceeds from Sale of Real Estate – Discontinued Operations

As part of executing under our Possible Strategic Alternatives, in April and May 2019, we sold 59 of the 63 properties in our MOB/Healthcare Portfolio and received net sales proceeds of approximately \$1,321.2 million, which were used to: (1) repay indebtedness secured by the properties sold; (2) rebalance other corporate borrowings (3) make a special cash distribution to the Company’s stockholders and (4) for other corporate purposes. We sold an acute-care property in the last half of 2019 and received net sales proceeds of \$33.2 million during the year ended December 31, 2019.

In February 2020, we closed on the sale of our property under the New Orleans Sale Agreement and received net sales proceeds of \$28.4 million. We plan to retain these net sales proceeds, along with the net sales proceeds received from the sale of the acute-care property during the last half of 2019, for corporate purposes as we are focused on maintaining a strong balance sheet, liquidity and financial flexibility given the uncertainty relating to COVID-19.

Borrowings

In December 2014, we entered into a \$230 million Revolving Credit Facility and a \$175 million senior unsecured term loan facility (“First Term Loan Facility”). In November 2015, we entered into a \$250 million senior unsecured term loan facility (“Second Term Loan Facility” and, collectively with the Revolving Credit Facility and First Term Loan Facility, “Credit Facilities”). In December 2018, we exercised our extension option on the Revolving Credit Facility resulting in the term ending December 2019. In February 2019, we exercised our extension option on the First Term Loan Facility resulting in the term ending in February 2020. The Second Term Loan Facility had an initial term through November 2020.

In May 2019, as part of executing under our Possible Strategic Alternatives, we completed the sale of 55 properties and in conjunction therewith, refinanced our Credit Facilities (including the payment of amounts outstanding under our Credit Facilities as described further in “Uses of Liquidity and Capital Resources – Debt Repayments”) and entered into new financings, which are comprised of a 2019 Revolving Line of Credit Facility of approximately \$250 million and a 2019 Term Loan Facility of approximately \$265 million (collectively, the “2019 Credit Facilities”). The 2019 Revolving Line of Credit Facility has an initial four-year term through May 2023, plus one 12-month extension option, and the 2019 Term Loan Facility has an initial five-year term through May 2024. The 2019 Credit Facilities bear interest based on 30-day LIBOR plus a spread that varies with our leverage ratio.

During the years ended December 31, 2019, 2018 and 2017, we borrowed proceeds of approximately \$116.5 million, \$167.9 million and \$218.3 million, respectively, before repayments on the Revolving Credit Facility, as described in “Uses of Liquidity and Capital Resources – Debt Repayments.” We have borrowed money to fund capital expenditures at our properties. We intend to continue borrowing money, to a lesser extent, to fund other enhancements to our portfolio. Generally, we expect to meet short-term working capital needs from our cash flows from operations.

On an ongoing basis, we monitor our debt maturities, engage in dialogue with third-party lenders about various financing scenarios and analyze our overall portfolio borrowings in advance of scheduled maturity dates of the debt obligations to determine the optimal borrowing strategy. We completed refinancings, repayments of scheduled debt obligations and, during 2019, as part of executing under our Possible Strategic Alternatives, made early repayments of obligations scheduled to mature after December 31, 2019. Refer to “Uses of Liquidity and Capital Resources – Debt Repayments” for additional information.

The following table provides details of our indebtedness as of December 31, 2019 and 2018, including indebtedness related to assets held for sale (in thousands):

	As of December 31,	
	2019	2018
Mortgages payable and other notes payable:		
Fixed rate debt	\$ 368,974	\$ 398,684
Variable rate debt ⁽¹⁾⁽²⁾	8,282	637,983
Mortgages and other notes payable ⁽³⁾	377,256	1,036,667
Premium, net ⁽⁴⁾	142	69
Loan costs, net	(1,470)	(5,294)
Total mortgages and other notes payable, net	375,928	1,031,442
Credit facilities:		
2014 Revolving Credit Facility ⁽¹⁾⁽²⁾⁽⁵⁾	—	224,125
First Term Loan Facility ⁽²⁾	—	175,000
Second Term Loan Facility ⁽¹⁾⁽²⁾	—	275,000
2019 Revolving Credit Facility ⁽¹⁾⁽⁵⁾	40,000	—
2019 Term Loan Facility ⁽¹⁾	265,000	—
Loan costs, net related to Term Loan Facilities	(2,050)	(983)
Total credit facilities, net	302,950	673,142
Total indebtedness, net	\$ 678,878	\$ 1,704,584

FOOTNOTES:

- (1) As of December 31, 2019 and 2018, we had entered into interest rate caps with notional amounts of approximately \$281.0 million and \$379.3 million, respectively. Refer to Item 8. “Financial Statements and Supplementary data” — Note 12. “Derivative Financial Instruments” for additional information.
- (2) As of December 31, 2019, we did not have any interest rate swaps. As of December 31, 2018, we had entered into interest rate swaps with notional amounts of approximately \$636.2 million. These interest rate swaps were settled in connection with the refinancing of the credit facilities in May 2019. Refer to Item 8. “Financial Statements and Supplementary Data” — Note 12. “Derivative Financial Instruments” for additional information.
- (3) As of December 31, 2019 and 2018, our mortgages and other notes payable are collateralized by 32 and 71 properties, respectively, with total carrying value of approximately \$0.6 billion and \$1.5 billion, respectively.
- (4) Premium (discount), net is reflective of us recording mortgage note payables assumed at fair value on the respective acquisition dates.
- (5) As of December 31, 2019 and 2018, we had undrawn availability under the applicable revolving credit facility of approximately \$181.7 million and \$14.7 million, respectively, based on the value of the properties in the unencumbered pool of assets supporting the loan, which includes certain assets held for sale.

The following is a schedule of future principal payments and maturity for our total indebtedness for the next five years and thereafter, in the aggregate, as of December 31, 2019 (in thousands):

2020	\$	39,642
2021		11,311
2022		282,220
2023		63,417
2024		285,666
Thereafter		—
	\$	<u>682,256</u>

The aggregate amount of long-term financing is not expected to exceed 60% of our gross asset values (as defined in our Credit Facilities) on an annual basis. As of December 31, 2019 and 2018, we had an aggregate debt leverage ratio of approximately 35.5% and 54.9%, respectively, of our aggregate gross asset values (as defined in our Credit Facilities). As described above under “Possible Strategic Alternatives,” during 2019 we sold 61 of the 70 properties we had classified as held for sale and used a portion of the net sales proceeds to pay off indebtedness related to those properties and to pay down a portion of the amounts outstanding on our mortgages and notes payable and our Credit Facilities. Refer to “Uses of Liquidity and Capital Resources – Debt Repayments” for additional information.

Generally, the loan agreements for our mortgage loans contain customary financial covenants and ratios; including (but not limited to) the following: debt service coverage ratio, minimum occupancy levels, limitations on incurrence of additional indebtedness, etc. The loan agreements also contain customary events of default and remedies for the lenders. The borrowers are normally direct or indirect subsidiaries of our Operating Partnership.

The credit facilities contain affirmative, negative, and financial covenants which are customary for loans of this type, including (but not limited to): (i) maximum leverage, (ii) minimum fixed charge coverage ratio, (iii) minimum consolidated net worth, (iv) restrictions on payments of cash distributions except if required by REIT requirements, (v) maximum secured indebtedness, (vi) maximum secured recourse debt, (vii) minimum unsecured interest coverage, (viii) maximum unsecured indebtedness ratio and (ix) limitations on certain types of investments and with respect to the pool of properties supporting borrowings under the credit facilities, minimum weighted average occupancy, and remaining lease terms, as well as property type, MSA, operator, and asset value concentration limits. The limitations on distributions generally include a limitation on the extent of allowable distributions, which are not to exceed the greater of 95% of adjusted FFO (as defined per the credit facilities) and the minimum amount of distributions required to maintain the Company’s REIT status. As of December 31, 2019, we were in compliance with all financial covenants.

See “Off-Balance Sheet Arrangements” below for a description of the borrowings of our unconsolidated entities.

Net Cash Provided by Operating Activities – Continuing Operations

We experienced positive cash flow from operating activities for the years ended December 31, 2019 and 2018 of approximately \$50.1 million and \$38.7 million, respectively. The increase in cash flows from operating activities for the year ended December 31, 2019 as compared to the same period in 2018 was primarily the result of the following:

- an increase in net operating income (“NOI”) as a result of the continued lease-up of additional seniors housing units at our completed developments and expansion projects. In addition, NOI was positively impacted by a decrease in property management fees paid to the Property Manager, an affiliate of our Advisor, as a result of the property management agreement not being renewed and expiring in June 2018; and
- lower interest expense resulting from the refinancing of our 2014 Credit Facilities in May 2019, as well as our decision to use proceeds from the sale of real estate to strategically pay down debt secured by other properties.

Reinvestment Plan

In light of our decision to proceed with the exploration of Possible Strategic Alternatives, we suspended our Reinvestment Plan in July 2018. As a result of the suspension of the Reinvestment Plan in July 2018, the Company did not receive any proceeds through its Reinvestment Plan subsequent to June 2018. For the years ended December 31, 2018 and 2017, the Company received proceeds through its Reinvestment Plan of approximately \$22.0 million and \$43.2 million, respectively.

Distributions from Unconsolidated Entities

As of December 31, 2019, 2018 and 2017, we had an investment in five unconsolidated properties through an unconsolidated joint venture. Pursuant to the joint venture agreement, we are entitled to receive quarterly preferred cash distributions to the extent there is cash available to distribute. These distributions are generally received within 45 days after each quarter end. For the years ended December 31, 2019, 2018 and 2017, we received approximately \$1.1 million, \$0.8 million and \$0.7 million of operating distributions from our investment in these unconsolidated entities, respectively. In addition, we received capital distributions during the year ended December 31, 2018 of approximately \$0.5 million, which resulted from the release of an escrow holdback created in connection with the acquisition of one of the joint venture's properties.

Expense Support Agreement

In February 2017, our board of directors approved the fourth amended and restated expense support agreement with our Advisor that became effective January 1, 2017. These amendments limit the annual expense support amount, in the aggregate, to an annualized four percent of the weighted average of our then-current estimated NAV per share and change the calculation to exclude the impact of completed development properties for a specified period of time after the property is placed into service (as defined in the agreement). This amendment, along with the original agreement and previous amendments, governs the fees and expenses charged by our Advisor to the Company.

Under the terms of the expense support agreement with our Advisor, for each quarter within a calendar expense support year, we will record a proportional estimate of the cumulative year-to-date period based on an estimate of expense support amounts for the calendar expense support year. Moreover, in exchange for services rendered and in consideration of the expense support provided under the expense support agreement, we will issue, within 90 days following the determination date, a number of shares of forfeitable restricted common stock ("Restricted Stock") equal to the quotient of the expense support amounts provided by our Advisor for the preceding calendar year divided by our then-current NAV per share of common stock. The terms of the expense support agreement automatically renew for consecutive one year periods, subject to the right of our Advisor to terminate upon 30 days' written notice. We did not recognize any expense support for the years ended December 31, 2019, 2018 or 2017. Refer to Item 8. "Financial Statements and Supplementary Data" — Note 11. "Related Party Arrangements" for additional information.

Uses of Liquidity and Capital Resources

Development of Properties- Continuing Operations

For the year ended December 31, 2019, we did not fund any development or expansion projects. In connection with our developments and expansion projects, we funded approximately \$1.7 million and \$47.9 million in development costs during the years ended, 2018 and 2017, respectively. We expect to fund approximately \$0.3 million of accrued development costs related to developer holdback fees on our completed developments in future periods.

As a result of our completed seniors housing developments continuing to lease-up towards and/or achieving stabilization, we continue to monitor these properties to determine whether the established performance metrics of their respective promoted interest agreements have been met. During the year ended December 31, 2018, we paid an approximate \$1.0 million distribution to the holder of a promoted interest related to the HarborChase of Villages Crossing development. During the year ended December 31, 2017, we paid an approximate \$2.0 million distribution to the holder of a promoted interest related to the Dogwood Forest of Acworth development. There were no promoted interest payments made during the year ended December 31, 2019.

We expect to pay additional amounts in future periods to the respective third-party developers as holders of a promoted interest in these properties to the extent the established performance metrics are met. No other performance metrics were met or probable of being met during the year ended December 31, 2019.

Capital Expenditures

We paid approximately \$6.3 million, \$9.8 million and \$8.5 million in capital expenditures during the years ended December 31, 2019, 2018 and 2017, respectively.

Debt Repayments

As part of executing our Possible Strategic Alternatives, during the year ended December 31, 2019, we paid approximately \$1.1 billion of total repayments which were comprised of \$457.3 million of repayments in connection with indebtedness secured by the 61 properties that were sold during 2019, approximately \$83.7 million of indebtedness secured by other properties that we strategically paid down using net sales proceeds received in connection with the sales of properties, approximately \$434.1 million in repayments related to the refinancing of our Credit Facilities into our new 2019 Credit Facilities, approximately \$30.0 million in repayments on our 2019 Revolving Credit Facility, approximately \$23.1 million in scheduled repayments on our mortgages and other notes payable and approximately \$116.8 million in early repayments on certain construction and other mortgage loans prior to their 2019 maturities (Shores of Lake Phalen and Wellmore of Lexington) and prior to their 2020 scheduled maturities (Waterstone at Augusta, Wellmore of Tega Cay, Dogwood Forest of Grayson and Palmilla Senior Living). We also refinanced the construction loan related to Watercrest at Katy of approximately \$21.3 million which was scheduled to mature in December 2019, with a new lender. The new mortgage loan matures in November 2024 and bears interest at a fixed rate of 3.25% per annum. In connection with the refinancing of our Credit Facilities into the 2019 Credit Facilities, we paid approximately \$7.6 million in lender fees and other loan-related costs.

During the year ended December 31, 2018, we paid approximately \$127.9 million of total repayments which was comprised of \$59.9 million in repayments on our Revolving Credit Facility, approximately \$24.3 million in repayments on our mortgage loans for Watercrest at Katy, Physicians Regional and HarborChase of Shorewood prior to their scheduled maturities, approximately \$24.9 million in repayments on our mortgage loan for Calvert Medical Office Properties that matured in August 2018, as well as approximately \$18.8 million in scheduled repayments on our mortgages and other notes payable.

As of December 31, 2019, we have approximately \$39.6 million of debt obligations coming due during 2020. In February 2020, we repaid approximately \$20.5 million of debt obligations that were scheduled to mature in June 2020.

Common Stock Redemptions

Our Redemption Plan through its suspension in July 2018 was designed to provide eligible stockholders with limited interim liquidity by enabling them to sell shares back to us prior to any liquidity event. Proceeds from our Reinvestment Plan were the primary source of available funds for redemption requests under our Redemption Plan on a quarterly basis with additional sources for excess redemption requests determined by our board of directors in accordance with our Redemption Plan. In July 2018, in light of our decision to proceed with the exploration of Possible Strategic Alternatives, we suspended our Redemption Plan. No requests for redemptions were accepted subsequent to suspension of the Redemption Plan in July 2018. As such, there were no requests for the redemption of common stock during the year ended December 31, 2019.

During the year ended December 31, 2018, we received requests through the suspension of the Redemption Plan for the redemption of approximately \$44.8 million of our common stock, which exceeded proceeds received from our Reinvestment Plan by approximately \$22.8 million. Of the excess \$22.8 million in redemption requests, approximately \$6.3 million of the excess redemption requests relating to the quarter ended March 31, 2018 were approved by our board of directors prior to our Redemption Plan's suspension, effective July 2018, while the approximate \$16.4 million of remaining excess redemptions requests were placed in a redemption requests queue pursuant to our Redemption Plan. The unsatisfied redemption requests placed in the redemption queue will remain there until such time, if at all, that our board of directors reinstates our Redemption Plan. There can be no guarantee that our Redemption Plan will be reinstated by our board of directors. Refer to Item 5. "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities – Redemption Plan" for additional information related to these redemption requests. During the year ended December 31, 2017, we received

redemption requests for the redemption of common stock of approximately \$57.7 million of which approximately \$46.0 million was paid and approximately \$11.7 million was payable as of December 31, 2017.

Distributions

In order to qualify as a REIT, we are required to make distributions, other than capital gain distributions, to our stockholders each year in the amount of at least 90% of our taxable income. We may make distributions in the form of cash or other property, including distributions of our own securities. While we generally expect to pay distributions from cash flows provided by operating activities, we have and may continue to cover periodic shortfalls between distributions paid and cash flows from operating activities with proceeds from Other Sources.

As part of executing our Possible Strategic Alternatives, in May 2019 we used a portion of the net sales proceeds received from the sales of 55 properties to pay a special cash distribution. Our board of directors declared a special cash distribution of \$2.00 per share to the holders of record of our common stock, for an aggregate total distribution of approximately \$347.9 million. Additionally, as a result of the sales of these properties, our board of directors adjusted our regular quarterly cash distribution to an amount equal to \$0.0512 per share, compared to \$0.1164 per share in effect since the third quarter of 2017. The adjustment to our regular cash distributions was the result of a reduction in our remaining earnings base and operating cash flows given the associated impact of the sale of real estate on our operating cash flows. No amounts distributed to stockholders during the years ended December 31, 2019, 2018 and 2017 were required to be or have been treated as a return of capital for purposes of calculating the stockholders' return on their invested capital as described in the advisory agreement.

The following table represents total cash distributions declared, distributions reinvested and cash distributions per share for years ended December 31, 2019, 2018 and 2017 (in thousands, except per share data):

Periods	Distributions Paid ⁽¹⁾				
	Cash Distributions per Share	Cash Distributions Declared ⁽²⁾	Reinvested via Reinvestment Plan	Cash Distributions net of Reinvestment Proceeds	Cash Flows Provided by Operating Activities ⁽³⁾
<u>2019 Quarters</u>					
First	\$ 0.11639	\$ 20,246	\$ —	\$ 20,246	\$ 26,155
Second	2.05120	356,832	—	356,832	10,835
Third	0.05120	8,907	—	8,907	16,905
Fourth	0.05120	8,907	—	8,907	6,055
Total	<u>\$ 2.26999</u>	<u>\$ 394,892</u>	<u>\$ —</u>	<u>\$ 394,892</u>	<u>\$ 59,950</u>
<u>2018 Quarters</u>					
First	\$ 0.11639	\$ 20,324	\$ 11,078	\$ 9,246	\$ 17,787
Second	0.11639	20,247	10,935	9,312	16,285
Third	0.11639	20,247	—	20,247	18,446
Fourth	0.11639	20,246	—	20,246	14,742
Total	<u>\$ 0.46556</u>	<u>\$ 81,064</u>	<u>\$ 22,013</u>	<u>\$ 59,051</u>	<u>\$ 67,260</u>

Periods	Distributions Paid ⁽¹⁾				
	Cash Distributions per Share	Cash Distributions Declared ⁽²⁾	Reinvested via Reinvestment Plan	Cash Distributions net of Reinvestment Proceeds	Cash Flows Provided by Operating Activities ⁽³⁾
<u>2017 Quarters</u>					
First	\$ 0.10581	\$ 18,525	\$ 10,412	\$ 8,113	\$ 18,667
Second	0.10581	18,515	10,305	8,210	22,815
Third	0.11639	20,363	11,271	9,092	15,460
Fourth	0.11639	20,329	11,232	9,097	18,304
Total	<u>\$ 0.44440</u>	<u>\$ 77,732</u>	<u>\$ 43,220</u>	<u>\$ 34,512</u>	<u>\$ 75,246</u>

FOOTNOTES:

- (1) Represents the amount of cash used to fund distributions and the amount of distributions paid which were reinvested in additional shares through our Reinvestment Plan, which was suspended in July 2018. Effective with the suspension of our Reinvestment Plan, stockholders who were participants in our Reinvestment Plan now receive cash distributions instead of additional shares of our common stock.
- (2) For the years ended December 31, 2019, 2018 and 2017, our net income (loss) attributable to common stockholders was approximately \$351.5 million, (\$25.1 million) and (\$26.0 million), respectively, while cash distributions declared were approximately \$394.9 million, \$81.1 million and \$77.7 million, respectively, of which approximately \$347.9 million for the year ended December 31, 2019 represented a special cash distribution that was funded using net sales proceeds from the sale of real estate. For the years ended December 31, 2019, 2018 and 2017, (excluding the special cash distribution paid during the year ended December 31, 2019) approximately 100%, 83.0% and 91%, respectively, of regular cash distributions declared to stockholders were considered to be funded with cash provided by operating activities as calculated on a quarterly basis for GAAP purposes and approximately 0%, 17.0% and 9%, respectively, of regular cash distributions declared to stockholders were considered to be funded with Other Sources.
- (3) Amounts herein include cash flows from discontinued operations. Cash flows from operating activities calculated in accordance with GAAP are not necessarily indicative of the amount of cash available to pay distributions and as such our board of directors also uses other measures such as FFO and MFFO in order to evaluate the level of distributions. GAAP requires the payment of certain items (most notably, lease incentives, acquisition fees and costs related to business combinations, and financing coordination fees) to be classified as a use of cash in operating activities in the statement of cash flows, which directly reduces the measure of cash flows from operations. For example, for the years ended December 31, 2019, 2018 and 2017, we paid approximately \$1.1 million, \$5.0 million and \$7.6 million, respectively, of lease incentives. For the years ended December 31, 2019, 2018 and 2017, we expensed approximately \$1.9 million, \$2.3 million and \$2.7 million in financing coordination fees, respectively.

Refer to Item 5. “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Distributions” for additional information regarding our monthly cash distributions as well as the tax composition of our distributions.

Results of Operations

As described above in –“COVID 19,” the ultimate extent of the impact of any epidemic, pandemic or other health crisis on our results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the current COVID-19, pandemic or other health crisis and actions taken to contain or prevent their further spread, among others. Accordingly, we cannot predict the extent to which our results of operations will be affected.

The following discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and the notes thereto.

Fiscal year ended December 31, 2019 as compared to the fiscal year ended December 31, 2018

As of December 31, 2019, excluding properties classified as discontinued operations, unconsolidated investments and unimproved land, we owned 72 consolidated operating investment properties and our portfolio consisted of units operated under management agreements with third-party operators and approximately 2.0 million rentable square feet that was 100.0% leased to third-party tenants.

Consolidated operating investment types:	Investment count as of December 31,	
	2019	2018
Seniors housing leased	15	15
Seniors housing managed	51	51
Post-acute care leased ⁽¹⁾	6	7
	<u>72</u>	<u>73</u>

FOOTNOTES:

⁽¹⁾ These properties are held for sale as of December 31, 2019.

Rental Income and Related Revenues. Rental income and related revenues was approximately \$33.5 million for the year ended December 31, 2019 as compared to \$35.0 million for the year ended December 31, 2018. This decrease was primarily due to the write off of rental income from our tenant at our Welbrook Senior Living Grand Junction property due to financial difficulties of the tenant. We sold the Grand Junction property in December 2019. Rental income and related revenues are expected to decline during 2020 as compared to 2019 due to the sale of the Grand Junction property in December 2019 and the sale of the Perennial Communities in March 2020.

Resident Fees and Services. Resident fees and services income was approximately \$288.3 million for the year ended December 31, 2019 as compared to approximately \$276.6 million for the year ended December 31, 2018. The increase in resident fees and services is primarily a result of year-over-year growth in occupancy rates resulting from the continued lease-up of additional seniors housing units at our completed developments and expansion projects.

Property Operating Expenses. Property operating expenses were approximately \$188.5 million for the year ended December 31, 2019 as compared to approximately \$181.3 million for the year ended December 31, 2018. The increase in property operating expenses is primarily a result of year-over-year growth in occupancy rates resulting from the continued lease-up of additional seniors housing units at our completed developments and expansion projects.

General and Administrative. General and administrative expenses for the year ended December 31, 2019 were approximately \$13.2 million as compared to approximately \$12.8 million for the year ended December 31, 2018. General and administrative expenses were comprised primarily of personnel expenses of affiliates of our Advisor, directors' and officers' insurance, franchise taxes, accounting and legal fees, and board of director fees. The increase in general and administrative expenses were primarily attributed to additional expenses related to the execution of Possible Strategic Alternatives.

Asset Management Fees. We incurred approximately \$18.3 million and \$18.4 million in asset management fees payable to our Advisor during the year ended December 31, 2019 and 2018, respectively. Monthly asset management fees equal to 0.08334% of invested assets are paid to our Advisor for the management of our real estate assets, including our pro rata share of investments in unconsolidated entities, loans and other permitted investments.

Property Management Fees. We incurred property management fees of approximately \$12.8 million and \$14.1 million for the years ended December 31, 2019 and 2018, respectively, payable to our third-party property managers and, for the period through June 2018, to our Property Manager, an affiliate of our Advisor. The decrease in property management fees resulted from the property management agreement with our Property Manager not being renewed beyond its expiration date in June 2018.

Financing Coordination Fees. Financing coordination fees for the year ended December 31, 2019 were \$1.9 million. There were no financing coordination fees for the year ended December 31, 2018. Financing coordination fees associated with the refinancing of debt are either expensed or capitalized based on whether such refinancings are determined to represent loan modifications or loan extinguishments for accounting purposes.

Depreciation and Amortization. Depreciation and amortization expenses for the years ended December 31, 2019 and 2018 were approximately \$49.8 million and \$54.1 million, respectively. Depreciation and amortization expenses are comprised of depreciation and amortization of the buildings, equipment, land improvements and in-place leases related to our real estate portfolio. The decrease in depreciation and amortization expense across periods resulted from several intangible assets related to our seniors housing investments being fully amortized, as well as there being no depreciation and amortization expense in 2019 for Welbrook Senior Living Grand Junction as a result of classifying that property as held for sale in December 2018 and which was sold in December 2019.

Impairment Provision. As described above in “Liquidity and Capital Resources – Possible Strategic Alternatives,” during the year ended December 31, 2018, we committed to a plan to sell Welbrook Senior Living Grand Junction and in connection therewith, recorded an impairment provision of approximately \$7.9 million to write-off the associated assets in excess of our estimated net sales proceeds, as it was determined that the carrying value of this property would not be recoverable. We sold this property during the year ended December 31, 2019. There were no impairment provisions for the year ended December 31, 2018.

Gain on Sale of Real Estate. Gain on sale of real estate was approximately \$0.4 million for the year ended December 31, 2019, as compared to approximately \$1.0 million for the year ended December 31, 2018. In June 2019, we sold a small parcel of vacant land at our Brookridge Heights Assisted Living & Memory Care property and in May 2018, we completed the sale of Physicians Regional.

Interest Expense and Loan Cost Amortization. Interest expense and loan cost amortization for the years ended December 31, 2019 and 2018 were approximately \$39.4 million and \$41.9 million, respectively. The decrease in interest expense and loan cost amortization was primarily the result of the repayment of approximately \$1.1 billion of indebtedness from the refinancing of our credit facilities and the strategic repayment of other property related indebtedness using net sales proceeds from the sales of properties during 2019 as described above in “Liquidity and Capital Resources”. The decrease was partially offset by the write-off of unamortized loan costs resulting from the refinancing of our credit facilities and the strategic repayment of other property related indebtedness during 2019. We expect ongoing interest expense to decline in future periods as a result of the 2019 refinancing of our credit facilities and the pay down of debt with net sales proceeds from the sale of real estate.

Income Tax (Expense) Benefit. For each of the years ended December 31, 2019 and 2018, we recognized federal and state income tax expense related to our properties of approximately \$2.2 million and \$3.6 million, respectively.

Income (loss) from Discontinued Operations. As part of executing our Possible Strategic Alternatives, we classified the revenues and expenses related to our MOB/Healthcare Portfolio, consisting of 63 properties, as discontinued operations as our board of directors committed to a plan to sell the MOB/Healthcare Portfolio and we believed that the sale of these properties would cause a strategic shift in our operations. Income (loss) from discontinued operations was approximately \$353.3 million and (\$4.4 million) for the years ended December 31, 2019 and 2018, respectively. The increase in income from discontinued operations during the year ended December 31, 2019 was partially attributable to the following:

- a gain on sale of real estate of approximately \$336.1 million from the sale of 61 properties during 2019;
- a decrease in depreciation and amortization, which ceased as of September 30, 2018 on the 63 properties in our MOB/Healthcare Portfolio as a result of the properties being classified as held for sale;
- a decrease in property management fees, which resulted from the property management agreement with our Property Manager, an affiliate of our Advisor, not being renewed beyond its expiration date in June 2018 and a decrease in asset management fees from the reduction in assets under management due to the sale of 61 properties;
- a decrease in interest expense resulting from the refinancing of our unsecured credit facilities in May 2019, including the strategic pay down of other property related indebtedness with net sales proceeds from the MOB Sale and other property sales; and the increase was partially offset by
- a reduction in resident fees and services from the sale of 61 properties during 2019.

Refer to Note 6. “Assets and Associated Liabilities Held For Sale and Discontinued Operations” for additional information.

Fiscal year ended December 31, 2018 as compared to the fiscal year ended December 31, 2017

As of December 31, 2018, excluding properties classified as discontinued operations, unconsolidated investments and unimproved land, we owned 73 consolidated operating investment properties and our portfolio consisted of units operated under management agreements with third-party operators and approximately 2.0 million rentable square feet that was 100.0% leased to third-party tenants.

Consolidated operating investment types:	Investment count as of December 31,	
	2018	2017
Seniors housing leased	15	15
Seniors housing managed	51	51
Medical office leased	—	1
Post-acute care leased	7	7
	<u>73</u>	<u>74</u>

Rental Income and Related Revenues. Rental income and related revenues was approximately \$35.0 million for the year ended December 31, 2018 as compared to \$35.8 million for the year ended December 31, 2017. The decrease in rental income and tenant reimbursements across periods primarily resulted from the transition of the Parc Communities in July 2017 from being leased to a third-party operator under a triple-net lease arrangement to being managed pursuant to a third-party management contract under a RIDEA structure (“Parc Communities Leased to Managed Transition”). This decrease was partially offset by: (1) the completion of Welbrook Transitional Care Grand Junction development and the commencement of the related lease in March 2017; and (2) the completion of Wellmore of Lexington development and the commencement of the related lease in July 2017.

Resident Fees and Services. Resident fees and services income was approximately \$276.6 million for the year ended December 31, 2018 as compared to approximately \$248.9 million for the year ended December 31, 2017. The increase in resident fees and services is primarily a result of: (1) the Parc Communities Leased to Managed Transition; (2) year-over-year growth in occupancy rates within our seniors housing properties; and (3) the continued lease-up of additional seniors housing units at two development properties and two expansion projects that were completed in 2017.

Property Operating Expenses. Property operating expenses were approximately \$181.3 million for the year ended December 31, 2018 as compared to approximately \$164.9 million for the year ended December 31, 2017. The increase in property operating expenses was primarily a result of: (1) the Parc Communities Leased to Managed Transition; (2) year-over-year growth in occupancy rates within our seniors housing properties; and (3) the continued lease-up of additional seniors housing units at two development properties and two expansion projects that were completed in 2017.

General and Administrative. General and administrative expenses for the year ended December 31, 2018 were approximately \$12.8 million as compared to approximately \$11.9 million for the year ended December 31, 2017. General and administrative expenses were comprised primarily of personnel expenses of affiliates of our Advisor, directors’ and officers’ insurance, franchise taxes, accounting and legal fees, and board of director fees. The increase in general and administrative expenses was primarily attributable to additional expenses related to the evaluation of Possible Strategic Alternatives discussed above under “Possible Strategic Alternatives.”

Asset Management Fees. We incurred approximately \$18.4 million in asset management fees payable to our Advisor during the year ended December 31, 2018, of which none were capitalized as a component of the cost of the assets acquired. We incurred approximately \$18.1 million for the year ended December 31, 2017 in asset management fees, of which approximately \$0.5 million were capitalized as a component of the cost of the assets acquired. We did not recognize expense support during the years ended December 31, 2018 and 2017. Monthly asset management fees equal to 0.08334% of invested assets are paid to our Advisor for the management of our real estate assets, including our pro rata share of investments in unconsolidated entities, loans and other permitted investments.

Financing Coordination Fees. There were no financing coordination fees for the year ended December 31, 2018. Financing coordination fees payable to our Advisor for the year ended December 31, 2017 were approximately \$3.6 million, of which approximately \$0.9 million was capitalized as loan costs and reduced mortgages and other notes payable, net in the accompanying consolidated balance sheets. Financing coordination fees associated with the refinancing of debt are either expensed or capitalized based on whether such refinancings are determined to represent loan modifications or loan extinguishments for accounting purposes.

Depreciation and Amortization. Depreciation and amortization expenses for the year ended December 31, 2018 were approximately \$54.1 million and approximately \$64.4 million for the year ended December 31, 2017. Depreciation and amortization expenses are comprised of depreciation and amortization of the buildings, equipment, land improvements and in-place leases related to our real estate portfolio. The decrease in depreciation and amortization expense across periods primarily resulted from several intangible assets related to our seniors housing investments being fully amortized by the end of 2017 or early 2018. This decrease was partially offset by an increase in depreciation related to the completion of our developments and expansions in 2017.

Impairment Provision. As described under “Possible Strategic Alternatives,” during the year ended December 31, 2018 we committed to a plan to sell Welbrook Senior Living Grand Junction. In connection therewith, we recorded an impairment provision of approximately \$7.9 million to write-off the associated assets in excess of our estimated net sales proceeds, as it was determined that the carrying value of this property would not be recoverable. There were no impairments during the year ended December 31, 2017.

Interest Expense and Loan Cost Amortization. Interest expense and loan cost amortization for the year ended December 31, 2018 was approximately \$41.9 million, none of which was capitalized as development costs. Interest expense and loan cost amortization for the year ended December 31, 2017 was approximately \$38.2 million of which approximately \$2.1 million was capitalized as development costs relating to our real estate under development. The increase in interest expense and loan cost amortization was primarily the result of an increase in our average debt outstanding across periods of approximately \$34.5 million combined with an increase in LIBOR for the year ended December 31, 2018, as compared to the year ended December 31, 2017.

Income Tax (Expense) Benefit. For each of the years ended December 31, 2018 and 2017, we recognized federal and state income tax expense related to our properties of approximately \$3.6 million and benefit of approximately \$8.4 million, respectively. The Company’s TRS entities had historically generated net operating loss carry-forwards for federal and state purposes since inception. However, due to increases in resident fees and services discussed above as well as the resetting in 2017 of certain leases between our TRS entities and the Company, our TRS entities generated taxable income for the year ended December 31, 2018 and are expected to generate taxable income in future periods. As such, the tax provision for 2017 included an approximate \$9.1 million reversal of a previously recorded valuation allowance on our TRS entities’ deferred tax assets.

Gain on Sale of Real Estate. We completed the sale of Physicians Regional in May 2018, which resulted in a gain on the sale of real estate of approximately \$1.0 million for financial reporting purposes during the year ended December 31, 2018. There were no sales of real estate during the year ended December 31, 2017.

Loss from Discontinued Operations. As discussed above under “Possible Strategic Alternatives,” we classified the revenues and expenses related to our MOB/Healthcare Portfolio as discontinued operations as our board of directors committed to a plan to sell the MOB/Healthcare Portfolio, and we believed the sale of these properties would cause a strategic shift in our operations. Loss from discontinued operations was approximately \$4.4 million and \$7.8 million for the years ended December 31, 2018 and 2017, respectively. The decrease in loss from discontinued operations across periods was primarily the result of the following:

- a decrease in depreciation and amortization, which was ceased as of September 30, 2018 on the 63 properties in our MOB/Healthcare Portfolio as a result of the properties being classified as held for sale.
- partially offset by an impairment provision related to Hurst Specialty Hospital of approximately \$4.3 million to write-down its book value to the estimated net sales price less costs to sell;
- an increase in interest expense paid resulting from higher average debt outstanding and higher interest rates for the year ended December 31, 2018, as compared to the year ended December 31, 2017; and

- financing coordination fees during 2018 related to refinancings that were determined to be loan modifications for accounting purposes.

Refer to Item 8. “Financial Statements and Supplementary Data” - Note 6. “Assets and Associated Liabilities Held For Sale and Discontinued Operations” for additional information.

Net Loss Attributable to Noncontrolling Interests. During the years ended December 31, 2018 and 2017, net loss attributable to our co-venture partners was approximately \$0.1 million and \$0.3 million, respectively. In accordance with the provisions of each joint venture agreement, we allocate loss from operations to our co-venture partners based on their percentage ownership in each joint venture. These losses are primarily related to our Watercrest at Katy and Fieldstone at Pear Orchard joint ventures, which both completed construction in 2016 and are in the lease-up phase.

Net Operating Income

We generally expect to meet future cash needs for general and administrative expenses, debt service and distributions from NOI. We define NOI, a non-GAAP measure, as total revenues less the property operating expenses and property management fees from managed properties. We use NOI as a key performance metric for internal monitoring and planning purposes, including the preparation of annual operating budgets and monthly operating reviews, as well as to facilitate analysis of future investment and business decisions. It does not represent cash flows from operating activities in accordance with GAAP and should not be considered to be an alternative to net income or loss (determined in accordance with GAAP) as an indication of our operating performance or to be an alternative to cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity. We believe the presentation of this non-GAAP measure is important to the understanding of our operating results for the periods presented because it is an indicator of the return on property investment and provides a method of comparing property performance over time. In addition, we have aggregated NOI on a “same-store” basis only for comparable properties that we have owned during the entirety of all periods presented. Non-same-store NOI represents NOI from a property that was sold in May 2018 and a property that was sold in December 2019, as we did not own those properties during the entirety of all periods presented. The chart below presents a reconciliation of our net income (loss) to NOI for the years ended December 31, 2019 and 2018 (in thousands) and the amount invested in properties as of December 31, 2019 and 2018 (in millions), excluding properties classified as discontinued operations:

	Years Ended December 31,		Change	
	2019	2018	\$	%
Net income (loss)	\$ 351,796	\$ (25,151)		
Adjusted to exclude:				
General and administrative expenses	13,158	12,839		
Asset management fees	18,298	18,389		
Financing coordination fees	1,878	—		
Depreciation and amortization	49,823	54,130		
Impairment provision	—	7,922		
Gain on sale of real estate	(432)	(1,049)		
Other expenses, net of other income	37,143	41,100		
Income tax expense	2,189	3,631		
(Income) loss from discontinued operations	(353,337)	4,409		
NOI	120,516	116,220	\$ 4,296	3.7%
Less: Non-same-store loss (NOI)	379	(1,658)		
Same-store NOI	\$ 120,895	\$ 114,562	\$ 6,333	5.5%
Invested in operating properties, end of period (in millions)	\$ 1,583	\$ 1,804		

Overall, our same-store NOI for the year ended December 31, 2019 increased by approximately \$6.3 million as compared to the same period in the prior year. The increase in our same store NOI, which excludes non-same-store NOI related to the sale of our Physicians Regional property in May 2018 and our Grand Junction property in December 2019, is primarily attributable to (1) the continued lease-up of additional seniors housing units at our completed developments and expansion projects, most notably, at our Raider Ranch and Tranquility at Fredericktowne properties; and (2) a decrease in property management fees paid to the Property Manager, an affiliate of our Advisor, as a result of the property management agreement not being renewed and expiring in June 2018. In addition, the aforementioned increases in our same-store NOI were partially offset by a reduction in NOI at our Welbrook Senior Living Grand Junction property, as described in “Results of Operations.”

The chart below presents a reconciliation of our net income (loss) to NOI for the years ended December 31, 2018 and 2017 (in thousands), and the amount invested in properties as of December 31, 2018 and 2017 (in millions), excluding the 63 properties classified as discontinued operations:

	Years Ended December 31,		Change	
	2018	2017	\$	%
Net loss	\$ (25,151)	\$ (26,312)		
Adjusted to exclude:				
General and administrative expenses	12,839	11,924		
Asset management fees	18,389	17,600		
Financing coordination fees	—	2,748		
Depreciation and amortization	54,130	64,377		
Impairment provision	7,922	—		
Gain on sale of real estate	(1,049)	—		
Other expenses, net of other income	41,100	35,568		
Income tax expense (benefit)	3,631	(8,438)		
Loss from discontinued operations	4,409	7,773		
NOI	116,220	105,240	\$ 10,980	10.4%
Less: Non-same-store NOI	(6,046)	(1,697)		
Same-store NOI	<u>\$ 110,174</u>	<u>\$ 103,543</u>	\$ 6,631	6.4%
Invested in operating properties, end of period (in millions)	<u>\$ 1,804</u>	<u>\$ 1,809</u>		

Overall, our NOI for the year ended December 31, 2018 increased by approximately \$11.0 million as compared to the same period in the prior year, primarily due to the continued lease-up of additional seniors housing units as well as year-over-year revenue and occupancy growth within our seniors housing properties. Our non-same-store NOI of approximately \$6.0 million for the year ended December 31, 2018 primarily related to the completion of four development properties and two expansion projects after January 1, 2017. Our same-store NOI for the year ended December 31, 2018 increased by approximately \$6.6 million, or 6.4%, as compared to the same period in the prior year. The increase in same-store NOI is primarily attributable to the continued lease-up of additional seniors housing units at two development properties and one expansion project that were completed in 2016 as well as year-over-year revenue and occupancy growth within our seniors housing properties.

Funds from Operations and Modified Funds from Operations

Due to certain unique operating characteristics of real estate companies, as discussed below, the NAREIT promulgated a measure known as FFO, which we believe to be an appropriate supplemental measure to reflect the operating performance of a REIT. The use of FFO is recommended by the REIT industry as a supplemental performance measure. FFO is not equivalent to net income or loss as determined under GAAP.

We define FFO, a non-GAAP measure, consistent with the standards approved by the Board of Governors of NAREIT. NAREIT defines FFO as net income or loss computed in accordance with GAAP, excluding gains or losses from sales of property, real estate asset impairment write-downs, plus depreciation and amortization of real estate related assets, and after adjustments for unconsolidated partnerships and joint ventures. Our FFO calculation complies with NAREIT’s policy described above.

The historical accounting convention used for real estate assets requires straight-line depreciation of buildings and improvements, which implies that the value of real estate assets diminishes predictably over time, especially if such assets are not adequately maintained or repaired and renovated as required by relevant circumstances and/or is requested or required by lessees for operational purposes in order to maintain the value of the property. We believe that, because real estate values historically rise and fall with market conditions, including inflation, interest rates, the business cycle, unemployment and consumer spending, presentations of operating results for a REIT using historical accounting for depreciation may be less informative. Historical accounting for real estate involves the use of GAAP. Any other method of accounting for real estate such as the fair value method cannot be construed to be any more accurate or relevant than the comparable methodologies of real estate valuation found in GAAP. Nevertheless, we believe that the use of FFO, which excludes the impact of real estate related depreciation and amortization, provides a more complete understanding of our performance to investors and to management, and when compared year over year, reflects the impact on our operations from trends in occupancy rates, rental rates, operating costs, general and administrative expenses, and interest costs, which may not be immediately apparent from net income or loss. However, FFO and MFFO, as described below, should not be construed to be more relevant or accurate than the current GAAP methodology in calculating net income or loss in its applicability in evaluating operating performance. The method utilized to evaluate the value and performance of real estate under GAAP should be construed as a more relevant measure of operational performance and considered more prominently than the non-GAAP FFO and MFFO measures and the adjustments to GAAP in calculating FFO and MFFO.

Changes in the accounting and reporting promulgations under GAAP (for acquisition fees and expenses for business combinations from a capitalization/depreciation model) to an expensed-as-incurred model that were put into effect in 2009, and other changes to GAAP accounting for real estate subsequent to the establishment of NAREIT's definition of FFO, have prompted an increase in cash-settled expenses, specifically acquisition fees and expenses, as items that are expensed under GAAP and accounted for as operating expenses. Our management believes these fees and expenses do not affect our overall long-term operating performance. Publicly registered, non-listed REITs typically have a significant amount of acquisition activity and are substantially more dynamic during their initial years of investment and operation. While other start up entities may also experience significant acquisition activity during their initial years, we believe that non-listed REITs are unique in that they have a limited life with targeted exit strategies within a relatively limited time frame after acquisition activity ceases. Due to the above factors and other unique features of publicly registered, non-listed REITs, the IPA has standardized a measure known as MFFO which the IPA has recommended as a supplemental measure for publicly registered non-listed REITs and which we believe to be another appropriate supplemental measure to reflect the operating performance of a non-listed REIT. MFFO is not equivalent to our net income or loss as determined under GAAP, and MFFO may not be a useful measure of the impact of long-term operating performance on value if we do not continue to operate with a limited life and targeted exit strategy, as currently intended. We believe that because MFFO excludes costs that we consider more reflective of investing activities and other non-operating items included in FFO and also excludes acquisition fees and expenses that affect our operations only in periods in which properties are acquired, MFFO can provide, on a going forward basis, an indication of the sustainability (that is, the capacity to continue to be maintained) of our operating performance after the period in which we acquired our properties and once our portfolio is in place. By providing MFFO, we believe we are presenting useful information that assists investors and analysts to better assess the sustainability of our operating performance after our properties have been acquired. We also believe that MFFO is a recognized measure of sustainable operating performance by the non-listed REIT industry.

We define MFFO, a non-GAAP measure, consistent with the IPA's Guideline 2010-01, Supplemental Performance Measure for Publicly Registered, Non-Listed REITs: MFFO, or the Practice Guideline, issued by the IPA in November 2010. The Practice Guideline defines MFFO as FFO further adjusted for the following items, as applicable, included in the determination of GAAP net income or loss: acquisition fees and expenses; amounts relating to deferred rent receivables and amortization of above and below market leases and liabilities (which are adjusted from a GAAP accrual basis in order to reflect such payments on a cash basis of amounts expected to be received for such lease and rental payments); contingent purchase price consideration adjustments; accretion of discounts and amortization of premiums on debt investments; mark-to-market adjustments included in net income or loss; gains or losses included in net income from the extinguishment or sale of debt, hedges, foreign exchange, derivatives or securities holdings where trading of such holdings is not a fundamental attribute of the business plan; and unrealized gains or losses resulting from consolidation from, or deconsolidation to, equity accounting and after adjustments for consolidated and unconsolidated partnerships and joint ventures, with such adjustments calculated to reflect MFFO on the same basis. The accretion of discounts and amortization of premiums on debt investments, unrealized gains and losses on hedges,

foreign exchange, derivatives or securities holdings, unrealized gains and losses resulting from consolidations, as well as other listed cash flow adjustments are adjustments made to net income or loss in calculating the cash flows provided by operating activities and, in some cases, reflect gains or losses which are unrealized and may not ultimately be realized.

Our MFFO calculation complies with the IPA's Practice Guideline described above. In calculating MFFO, we exclude acquisition related expenses. Under GAAP, acquisition fees and expenses are characterized as operating expenses in determining operating net income or loss. These expenses are paid in cash by us. All paid and accrued acquisition fees and expenses will have negative effects on returns to investors, the potential for future distributions, and cash flows 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.

Our management uses MFFO and the adjustments used to calculate it in order to evaluate our performance against other non-listed REITs which have limited lives with short and defined acquisition periods and targeted exit strategies shortly thereafter. As noted above, MFFO may not be a useful measure of the impact of long-term operating performance on value if we do not continue to operate in this manner. We believe that our use of MFFO and the adjustments used to calculate it allow us to present our performance in a manner that reflects certain characteristics that are unique to non-listed REITs, such as their limited life, limited and defined acquisition period and targeted exit strategy, and hence that the use of such measures is useful to investors. For example, acquisition costs are funded from our subscription proceeds and other financing sources and not from operations. By excluding expensed acquisition costs, the use of MFFO provides information consistent with management's analysis of the operating performance of the properties.

Presentation of this information is intended to provide useful information to investors as they compare the operating performance of different non-listed REITs, although it should be noted that not all REITs calculate FFO and MFFO the same way and as such comparisons with other REITs may not be meaningful. Furthermore, FFO and MFFO are not necessarily indicative of cash flows available to fund cash needs and should not be considered as an alternative to net income (or loss) or income (or loss) from continuing operations as an indication of our performance, as an alternative to cash flows from operations, as an indication of our liquidity, or indicative of funds available to fund our cash needs including our ability to make distributions to our stockholders. FFO and MFFO should be reviewed in conjunction with other GAAP measurements as an indication of our performance. MFFO is useful in assisting management and investors in assessing the sustainability of operating performance in future operating periods, and in particular, now that the offering and acquisition stages are complete and NAV is disclosed. FFO and MFFO are not useful measures in evaluating NAV because impairments are taken into account in determining NAV but not in determining FFO and MFFO.

Neither the SEC, NAREIT nor any other regulatory body has passed judgment on the acceptability of the adjustments we use to calculate FFO or MFFO. In the future, the SEC, NAREIT or another regulatory body may decide to standardize the allowable adjustments across the non-listed REIT industry and we would have to adjust our calculation and characterization of FFO or MFFO.

The following table presents a reconciliation of net loss to FFO and MFFO for the years ended December 31, 2019, 2018 and 2017 (in thousands, except per share data):

	Years Ended December 31,		
	2019	2018	2017
Net income (loss) attributable to common stockholders	\$ 351,496	\$ (25,072)	\$ (25,962)
Adjustments:			
Depreciation and amortization:			
Continuing operations	49,823	54,130	64,377
Discontinued operations	—	31,961	43,567
Impairment provision:			
Continuing operations	—	7,922	—
Discontinued operations	67	4,392	—
Gain on sale of real estate:			
Continuing operations	(432)	(1,049)	—
Discontinued operations	(336,074)	—	—
FFO adjustments attributable to noncontrolling interests:			
Continuing operations	(192)	(191)	(190)
Discontinued operations	261	(36)	(54)
FFO adjustments from unconsolidated entities: ⁽¹⁾	112	405	509
FFO attributable to common stockholders	65,061	72,462	82,247
Straight-line rent adjustments: ⁽²⁾			
Continuing operations	733	(2,219)	(2,521)
Discontinued operations	(1,242)	89	1,542
Amortization of above and below market intangibles: ⁽³⁾			
Continuing operations	(42)	(41)	(38)
Discontinued operations	—	431	658
Unrealized gain from mark-to-market adjustments on swaps: ⁽⁴⁾			
Continuing operations	—	—	(2)
Discontinued operations	—	(26)	(41)
Loss on extinguishment of debt: ⁽⁵⁾			
Continuing operations	1,163	96	10
Discontinued operations	3,339	—	229
Realized loss on extinguishment of hedges or other derivatives: ⁽⁶⁾			
Continuing operations	198	—	30
Discontinued operations	(441)	269	288
Contingent purchase price consideration adjustment: ⁽⁷⁾			
Continuing operations	—	—	—
Discontinued operations	—	—	47
MFFO adjustments attributable to noncontrolling interests:			
Continuing operations	—	4	—
Discontinued operations	(9)	(3)	(3)
MFFO attributable to common stockholders	\$ 68,760	\$ 71,062	\$ 82,446
Weighted average number of shares of common stock outstanding (basic and diluted)	173,963	174,247	175,151
Net income (loss) per share (basic and diluted)	\$ 2.02	\$ (0.14)	\$ (0.15)
FFO per share (basic and diluted)	\$ 0.37	\$ 0.42	\$ 0.47
MFFO per share (basic and diluted)	\$ 0.40	\$ 0.41	\$ 0.47

FOOTNOTES:

- (1) This amount represents our share of the FFO or MFFO adjustments allowable under the NAREIT or IPA definitions, respectively, calculated using the hypothetical liquidation at book value (“HLBV”) method.
- (2) Under GAAP, rental receipts are allocated to periods using various methodologies. This may result in income or expense recognition that is significantly different than underlying contract terms. By adjusting for these items (from a GAAP accrual basis in order to reflect such payments on a cash basis of amounts expected to be received for such lease and rental payments), MFFO provides useful supplemental information on the realized economic impact of lease terms and debt investments, providing insight on the contractual cash flows of such lease terms and debt investments, and aligns results with management’s analysis of operating performance.
- (3) Under GAAP, certain intangibles are accounted for at cost and reviewed at least annually for impairment, and certain intangibles are assumed to diminish predictably in value over time and are amortized, similar to depreciation and amortization of other real estate-related assets that are excluded from FFO. However, because real estate values and market lease rates historically rise or fall with market conditions, management believes that by excluding charges relating to amortization of these intangibles, MFFO provides useful supplemental information on the performance of the real estate.
- (4) Management believes that adjusting for the unrealized gains and losses from mark-to-market adjustments on swaps is appropriate because the adjustments are not reflective of our ongoing operating performance and, as a result, the adjustments better align results with management’s analysis of operating performance.
- (5) Management believes that adjusting for the realized loss on the early extinguishment of debt is appropriate because the adjustments are not reflective of our ongoing operating performance and, as a result, the adjustments better align results with management’s analysis of operating performance.
- (6) Management believes that adjusting for the realized loss on the extinguishment of hedges or other derivatives is appropriate because the adjustments are not reflective of our ongoing operating performance and, as a result, the adjustments better align results with management’s analysis of operating performance.
- (7) Management believes that the elimination of contingent purchase price consideration adjustments included in operating income (expense) for GAAP purposes is appropriate because the adjustments are not reflective of our ongoing operating performance and, as a result, the adjustments better align results with management’s analysis of operating performance.

Contractual Obligations

The following table presents our contractual obligations by payment periods as of December 31, 2019, including liabilities associated with assets held for sale (in thousands):

	Payments Due by Period				Total
	2020	2021-2022	2023-2024	Thereafter	
Mortgages and other notes payable (principal and interest)	\$ 54,944	\$ 311,636	\$ 45,910	\$ —	\$ 412,490
Credit facilities (principal and interest)	10,124	20,249	317,858	—	348,231
	<u>\$ 65,068</u>	<u>\$ 331,885</u>	<u>\$ 363,768</u>	<u>\$ —</u>	<u>\$ 760,721</u>

Off-Balance Sheet Arrangements

As of December 31, 2018, our Windsor Manor joint venture had approximately \$19.5 million of outstanding debt under the loan agreement, which was scheduled to mature in June 2019, related to five senior housing communities in Iowa. In February 2019, our Windsor Manor joint venture refinanced the then-current outstanding debt of approximately \$19.7 million. In addition, in connection with the refinancing, our Windsor Manor joint venture received aggregate proceeds of \$20.1 million, of which approximately \$0.3 million were used to pay loan costs associated with the refinancing. The refinanced loan has an initial five year term with monthly principal and interest payments based upon a 25-year amortization and a variable interest rate equal to LIBOR plus 2.5%. Refer to Item 2. “Properties” for additional information related to the five seniors housing communities owned through our Windsor Manor joint venture.

Related-Party Transactions

Our Advisor and its affiliates are entitled to reimbursement of certain costs incurred on our behalf in connection with our organization, acquisitions, dispositions and operating activities. To the extent that operating expenses payable or reimbursable by us in any four consecutive fiscal quarters (“Expense Year”), commencing with the Expense Year ending June 30, 2013, exceed the greater of 2% of average invested assets or 25% of net income, the Advisor shall reimburse us, within 60 days after the end of the Expense Year, the amount by which the total operating expenses paid or incurred by us exceed the greater of the 2% or 25% threshold. Notwithstanding the above, we may reimburse the 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. For the Expense Year ended December 31, 2019, the Company did not incur operating expenses in excess of the limitation.

See Item 8. “Financial Statements and Supplemental Data” – Note 11. “Related Party Arrangements” in the accompanying consolidated financial statements for additional information.

Critical Accounting Policies and Estimates

Below is a discussion of the accounting policies that management believes are critical. We consider these policies critical because they involve difficult management judgments and assumptions, require estimates about matters that are inherently uncertain and because they are important for understanding and evaluating our reported financial results. These judgments will affect the reported amounts of assets and liabilities and our disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. With different estimates or assumptions, materially different amounts could be reported in our financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses. Our most sensitive estimates will involve the allocation of the purchase price of acquired properties and evaluating our real estate-related investments for impairment.

Basis of Presentation and Consolidation. Our consolidated financial statements will include our accounts, the accounts of our wholly owned subsidiaries or subsidiaries for which we have a controlling interest, the accounts of variable interest entities (“VIEs”) in which we are the primary beneficiary, and the accounts of other subsidiaries over which we have a controlling financial interest. All material intercompany accounts and transactions will be eliminated in consolidation.

In accordance with the guidance for the consolidation of a VIE, we are required to identify entities for which control is achieved through means other than voting rights and to determine the primary beneficiary of our VIEs. We qualitatively assess whether we are the primary beneficiary of a VIE and consider various factors including, but not limited to, the design of the entity, its organizational structure including decision-making ability and financial agreements, our ability and the rights of others to participate in policy making decisions, as well as our ability to replace the VIE manager and/or liquidate the entity.

Use of Estimates. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements, the reported amounts of revenues and expenses during the reporting periods and the disclosure of contingent liabilities. For example, significant assumptions are made in the analysis of real estate impairments, the valuation of contingent assets and liabilities, and the valuation of restricted stock shares issued to the Advisor. Accordingly, actual results could differ from those estimates.

Assets Held For Sale, net and Discontinued Operations — The Company determines to classify a property as held for sale once management has the authority to approve and commits to a plan to sell the property, the property is available for immediate sale, there is an active program to locate a buyer, the sale of the property is probable and the transfer of the property is expected to occur within one year. Upon the determination to classify a property as held for sale, the Company ceases recording further depreciation and amortization relating to the associated assets and those assets are measured at the lower of its carrying amount or fair value less disposition costs and are presented separately in the consolidated balance sheets for all periods presented. In addition, the Company classifies assets held for sale as discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on the Company’s operations and financial results. For any disposal(s) qualifying as discontinued operations, the Company

allocates interest expense and loan cost amortization that directly relates to either: (1) expense on mortgages and other notes payable collateralized by properties classified as discontinued operations; or (2) expense on the Company's Credit Facilities, which is allocated based on the value of the properties that are classified as discontinued operations since these properties are included in the Credit Facilities' unencumbered pool of assets and the related indebtedness is required to be repaid upon sale of the properties.

Impairment of Real Estate Assets. Real estate assets are reviewed on an ongoing basis to determine whether there are any indicators, including property operating performance and general market conditions, that the value of the real estate properties (including any related amortizable intangible assets or liabilities) may be impaired. To assess if an asset group is potentially impaired, we compare the estimated current and projected undiscounted cash flows, including estimated net sales proceeds, of the asset group over its remaining useful life, or our estimated holding period if shorter, to the net carrying value of the asset group. Such cash flow projections consider factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors. In the event that the carrying value exceeds the undiscounted operating cash flows, we would recognize an impairment provision to adjust the carrying value of the asset group to the estimated fair value of the asset group.

For real estate we indirectly own through an investment in a joint venture or other similar investment structure accounted for under the equity method, we will compare the estimated fair value of our investment to the carrying value. An impairment charge will be recorded to the extent the fair value of our investment is less than the carrying amount and the decline in value is determined to be other than a temporary decline.

Income Taxes. To qualify as a REIT, we are subject to certain organizational and operational requirements, including a requirement to distribute to stockholders each year at least 90% of our annual REIT taxable income (which is computed without regard to the dividends-paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP). As a REIT, we generally will not be subject to U.S. federal income tax on income that we distribute as dividends to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to U.S. federal income tax on our taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost, unless the IRS grants us relief under certain statutory provisions. Even if we qualify for taxation as a REIT, we may be subject to certain state and local taxes on our income and property, and U.S. federal income and excise taxes on our undistributed income.

We have and will continue to form subsidiaries which may elect to be taxed as a TRS for U.S. federal income tax purposes. Under the provisions of the Internal Revenue Code and applicable state laws, a TRS will be subject to tax on its taxable income from its operations. We will account for federal and state income taxes with respect to a TRS using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities, the respective tax bases, operating losses and/or tax-credit carryforwards.

Share-Based Payments to Non-Employees. In connection with the expense support agreement, we may issue Restricted Stock to the Advisor on an annual basis in exchange for providing expense support in the event that cash distributions declared exceed MFFO as defined by the expense support agreement.

The Restricted Stock is forfeited if shareholders do not ultimately receive their original invested capital back with at least a 6% annualized return of investment upon a future liquidity or disposition event. Upon issuance of Restricted Stock, we measure the fair value at our then-current lowest aggregate fair value pursuant to the Accounting Standards Codification ("ASC") 505-50. On the date in which the Advisor or the Property Manager satisfies the vesting criteria, we remeasure the fair value of the Restricted Stock pursuant to ASC 505-50 and record expense equal to the difference between the original fair value and that of the remeasurement date. In addition, given that performance is outside the control of the Advisor and involves both market conditions and counterparty performance conditions, the shares are treated as unissued for accounting purposes and we only include the Restricted Stock in the calculation of diluted earnings per share to the extent their effect is dilutive and the vesting conditions have been satisfied as of the reporting date.

Pursuant to the expense support agreement, the Advisor shall be the record owner of the Restricted Stock until the shares of common stock are sold or otherwise disposed of, and shall be entitled to all of the rights of a stockholder including, without limitation, the right to vote such shares (to the extent permitted by the Articles) and receive all dividends and other distributions paid with respect to such shares. All dividends or other distributions actually paid to the Advisor in connection with the Restricted Stock shall vest immediately and will not be subject to forfeiture. We recognize expense related to the dividends on the Restricted Stock shares as declared.

Revenue Recognition. Rental income and related revenues includes rental income that is recorded on the straight-line basis over the terms of the leases for new leases and the remaining terms of existing leases for those acquired as part of a property acquisition. The straight-line method records the periodic average amount of base rent earned over the term of a lease, taking into account contractual rent increases over the lease term. We record the difference between base rent revenues earned and amounts due per the respective lease agreements, as applicable, as an increase or decrease to deferred rent and lease incentives in the accompanying consolidated balance sheets. Rental income and related revenues also includes tenant reimbursements that represent amounts tenants are required to reimburse us for expenses incurred on behalf of the tenants, in accordance with the terms of the leases and are recognized in the period in which the related reimbursable expenses are incurred, such as real estate taxes, common area maintenance, and similar items.

Some of our leases require the tenants to pay certain additional contractual amounts that we set aside for replacements of fixed assets and other improvements to the properties. These amounts are and will remain our property during and after the term of the lease. The amounts are recorded as capital improvement reserve income at the time that they are earned and are included in rental income and related revenues in the accompanying consolidated statement of operations. Additional percentage rent that is due contingent upon tenant performance thresholds, such as gross revenues, is deferred until the underlying performance thresholds have been achieved.

We account for our resident agreements as a single performance obligation under ASC 606 given our overall promise to provide a series of stand-ready goods and services to our residents each month. Resident fees and services are recorded in the period in which the goods are provided and the services are performed and generally consist of (1) monthly rent, which covers occupancy of the residents' unit as well as basic services, such as utilities, meals and certain housekeeping services, and (2) service level charges, such as assisted living care, memory care and ancillary services. Resident agreements are generally short-term in nature, billed monthly in advance and cancelable by the residents with a 30-day notice. Resident agreements may require the payment of upfront fees prior to moving into the community with any non-refundable portion of such fees being recorded as deferred revenue and amortized over the estimated resident stay.

Impact of Accounting Pronouncements

See Item 8. "Financial Statements and Supplemental Data" – Note 2. "Significant Accounting Policies" for additional information about the impact of accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risks

We may be exposed to interest rate changes primarily as a result of the long-term debt we used to acquire properties and other permitted investments. Our management objectives related to interest rate risk is to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve our objectives, we borrow at fixed rates or variable rates with the lowest margins available, and in some cases, with the ability to convert from variable rates to fixed rates. With regard to variable rate financing, we assess interest rate cash flow risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities.

The following is a schedule as of December 31, 2019, of our fixed and variable rate debt maturities for each of the next five years and thereafter (principal maturities only), including liabilities associated with assets held for sale (in thousands):

	Expected Maturities					Total	Fair Value ⁽¹⁾
	2020	2021	2022	2023	2024		
Fixed rate debt	\$ 31,360	\$ 11,311	\$ 282,220	\$ 23,417	\$ 20,666	\$ 368,974	\$ 373,000
Weighted average interest rate on fixed rate debt	3.98 %	4.29 %	4.27 %	4.65 %	3.25 %	— %	4.21 %
Variable rate debt	\$ 8,282	\$ —	\$ —	\$ 40,000	\$ 265,000	\$ —	\$ 313,282
Average interest rate on variable rate debt	LIBOR +1.98%	—%	—%	LIBOR +1.95%	LIBOR +1.95%	—%	LIBOR +1.95%

FOOTNOTE:

(1) The estimated fair value of our fixed and variable rate debt was determined using discounted cash flows based on market interest rates as of December 31, 2019. We determined market rates through discussions with our existing lenders by pricing our loans with similar terms and current rates and spreads.

Assuming no interest rate protection, management estimates that a one-percentage point increase or decrease in LIBOR in 2019 compared to LIBOR rates as of December 31, 2019 would result in an annualized fluctuation of interest expense on our variable rate debt of approximately \$3.1 million for the year ending December 31, 2019. This sensitivity analysis contains certain simplifying assumptions, and although it gives an indication of our exposure to changes in interest rates, it is not intended to predict future results and actual results will likely vary given that our sensitivity analysis on the effects of changes in LIBOR does not factor in a potential change in variable rate debt levels, any offsetting gains on interest rate swap contracts, or the impact of any LIBOR floors or caps.

As of December 31, 2019, the Company's debt is comprised of approximately 54.1% in fixed rate debt, approximately 41.2% in variable rate debt with current interest rate protection and approximately 4.7% of unhedged variable rate debt. The remaining unhedged variable rate debt primarily relates to our construction loan and the 2019 Revolving Credit Facility. Overall, we believe longer term fixed rate debt could be beneficial in a rising interest rate or rising inflation rate environment and as such we continue to evaluate the need for additional interest rate protection on unhedged variable rate debt or variable rate debt with interest rate protection scheduled to mature.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of CNL Healthcare Properties, Inc.:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of CNL Healthcare Properties, Inc. and its subsidiaries (the “Company”) as of December 31, 2019 and 2018, and the related consolidated statements of operations, of comprehensive income (loss), of stockholders’ equity and redeemable noncontrolling interest and of cash flows for each of the three years in the period ended December 31, 2019, including the related notes and financial statement schedules listed in the index appearing under Item 15(a)(2) (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Orlando, Florida

March 26, 2020

We have served as the Company's auditor since 2010.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	December 31,	
	2019	2018
ASSETS		
Real estate investment properties, net (including VIEs \$45,329 and \$146,341, respectively)	\$ 1,412,595	\$ 1,455,149
Assets held for sale, net (including VIEs \$0 and \$39,601, respectively)	111,894	1,147,645
Cash (including VIEs \$1,024 and \$342, respectively)	42,350	57,109
Other assets (including VIEs \$577 and \$678, respectively)	27,049	23,488
Deferred rent and lease incentives (including VIEs \$0 and \$7,160, respectively)	15,331	14,763
Restricted cash (including VIEs \$76 and \$208, respectively)	5,997	6,119
Intangibles, net	1,220	1,614
Total assets	<u>\$ 1,616,436</u>	<u>\$ 2,705,887</u>
LIABILITIES AND EQUITY		
Liabilities:		
Mortgages and other notes payable, net (including VIEs \$29,148 and \$102,578, respectively)	\$ 375,928	\$ 530,644
Credit facilities	302,950	425,613
Liabilities associated with assets held for sale (including VIEs \$0 and \$30,695, respectively)	1,113	774,019
Accounts payable and accrued liabilities (including VIEs \$1,286 and \$784, respectively)	24,530	21,882
Other liabilities (including VIEs \$219 and \$1,321, respectively)	8,609	8,548
Due to related parties	2,275	3,255
Total liabilities	<u>715,405</u>	<u>1,763,961</u>
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interest	558	579
Stockholders' equity:		
Preferred stock, \$0.01 par value per share, 200,000 shares authorized; none issued or outstanding	—	—
Excess shares, \$0.01 par value per share, 300,000 shares authorized; none issued or outstanding	—	—
Common stock, \$0.01 par value per share, 1,120,000 shares authorized, 186,626 and 186,626 shares issued, and 173,960 and 173,963 shares outstanding, respectively	1,740	1,740
Capital in excess of par value	1,516,926	1,516,543
Accumulated income (loss)	120,831	(233,847)
Accumulated distributions	(740,239)	(345,347)
Accumulated other comprehensive (loss) income	(36)	1,177
Total stockholders' equity	<u>899,222</u>	<u>940,266</u>
Noncontrolling interest	1,251	1,081
Total equity	<u>901,031</u>	<u>941,926</u>
Total liabilities and equity	<u>\$ 1,616,436</u>	<u>\$ 2,705,887</u>

The abbreviation VIEs above means variable interest entities.

See accompanying notes to consolidated financial statements.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Years Ended December 31,		
	2019	2018	2017
Revenues:			
Rental income and related revenues	\$ 33,547	\$ 34,971	\$ 35,807
Resident fees and services	288,344	276,623	248,900
Total revenues	<u>321,891</u>	<u>311,594</u>	<u>284,707</u>
Operating expenses:			
Property operating expenses	188,535	181,299	164,866
General and administrative	13,158	12,839	11,924
Asset management fees	18,298	18,389	17,600
Property management fees	12,840	14,075	14,601
Financing coordination fees	1,878	—	2,748
Depreciation and amortization	49,823	54,130	64,377
Impairment provision	—	7,922	—
Total operating expenses	<u>284,532</u>	<u>288,654</u>	<u>276,116</u>
Gain on sale of real estate	432	1,049	—
Operating income	<u>37,791</u>	<u>23,989</u>	<u>8,591</u>
Other income (expense):			
Interest and other income	1,531	335	133
Interest expense and loan cost amortization	(39,405)	(41,924)	(36,104)
Equity in earnings of unconsolidated entity	731	489	403
Total other expense	<u>(37,143)</u>	<u>(41,100)</u>	<u>(35,568)</u>
Income (loss) before income tax	648	(17,111)	(26,977)
Income tax (expense) benefit	<u>(2,189)</u>	<u>(3,631)</u>	<u>8,438</u>
Loss from continuing operations	(1,541)	(20,742)	(18,539)
Income (loss) from discontinued operations	<u>353,337</u>	<u>(4,409)</u>	<u>(7,773)</u>
Net income (loss)	351,796	(25,151)	(26,312)
Less: Amounts attributable to noncontrolling interest			
Net income (loss) from continuing operations	35	(85)	(341)
Net income (loss) from discontinued operations	265	6	(9)
Net income (loss) attributable to common stockholders	<u>\$ 351,496</u>	<u>\$ (25,072)</u>	<u>\$ (25,962)</u>
Net income (loss) per share of common stock (basic and diluted)			
Continuing operations	\$ (0.01)	\$ (0.12)	\$ (0.11)
Discontinued operations	\$ 2.03	\$ (0.03)	\$ (0.04)
Weighted average number of shares of common stock outstanding (basic and diluted)			
	<u>173,963</u>	<u>174,247</u>	<u>175,151</u>

See accompanying notes to consolidated financial statements.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Years Ended December 31,		
	2019	2018	2017
Net income (loss)	\$ 351,796	\$ (25,151)	\$ (26,312)
Other comprehensive income (loss):			
Unrealized (loss) gain on derivative financial instruments, net	(980)	1,909	6,586
Reclassification of interest rate swaps upon derecognition	(509)	253	318
Reclassification of interest rate caps upon derecognition	265	—	(26)
Unrealized loss on derivative financial instruments of equity method investments	11	—	—
Total other comprehensive (loss) income	<u>(1,213)</u>	<u>2,162</u>	<u>6,878</u>
Comprehensive income (loss)	350,583	(22,989)	(19,434)
Less: Comprehensive income (loss) attributable to noncontrolling interest	<u>300</u>	<u>(79)</u>	<u>(350)</u>
Comprehensive income (loss) attributable to common stockholders	<u>\$ 350,283</u>	<u>\$ (22,910)</u>	<u>\$ (19,084)</u>

See accompanying notes to consolidated financial statements.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND REDEEMABLE NONCONTROLLING INTEREST
(in thousands, except per share data)

	Redeemable Noncontrolling Interest	Common Stock		Capital in Excess of Par Value		Accumulated (Loss) Income		Accumulated Distributions		Accumulated Other Comprehensive Income (Loss)		Total Stockholders' Equity		Non- controlling Interest		Total Equity	
		Number of Shares	Par Value	Par Value	Excess of Par Value	(Loss)	Income	(Loss)	Income	(Loss)	Income	(Loss)	Equity	Equity	Interest	Equity	Equity
Balance at December 31, 2016	\$ 472	175,070	\$ 1,751	\$ 1,528,435	\$ (182,813)	\$ (186,551)	\$ (7,863)	\$ 1,152,959	\$ 1,386	\$ 1,154,817							
Subscriptions received for common stock through reinvestment plan	—	4,304	43	43,177	—	—	—	43,220	—	43,220							
Redemptions of common stock	—	(4,740)	(47)	(47,285)	—	—	—	(47,332)	—	(47,332)							
Net loss	(97)	—	—	—	(25,962)	—	—	(25,962)	(253)	(26,312)							
Other comprehensive income	—	—	—	—	—	—	6,878	6,878	—	6,878							
Distribution to noncontrolling interest	—	—	—	—	—	—	—	—	(34)	(34)							
Distributions to holders of promoted interest	—	—	—	(955)	—	—	—	(955)	—	(955)							
Cash distributions declared (\$0.44440 per share)	—	—	—	—	—	(77,732)	—	(77,732)	—	(77,732)							
Contribution from noncontrolling interests	50	—	—	—	—	—	—	—	60	110							
Balance at December 31, 2017	\$ 425	174,634	\$ 1,747	\$ 1,523,372	\$ (208,775)	\$ (264,283)	\$ (985)	\$ 1,051,076	\$ 1,159	\$ 1,052,660							
Subscriptions received for common stock through reinvestment plan	—	2,133	21	21,992	—	—	—	22,013	—	22,013							
Redemptions of common stock	—	(2,804)	(28)	(28,415)	—	—	—	(28,443)	—	(28,443)							
Net loss	(16)	—	—	—	(25,072)	—	—	(25,072)	(63)	(25,151)							
Other comprehensive income	—	—	—	—	—	—	2,162	2,162	—	2,162							
Distribution to noncontrolling interest	(15)	—	—	—	—	—	—	—	(15)	(30)							
Distributions to holders of promoted interest	—	—	—	(406)	—	—	—	(406)	—	(406)							
Cash distributions declared (\$0.46556 per share)	—	—	—	—	—	—	—	—	—	(81,064)							
Contribution from noncontrolling interests	185	—	—	—	—	—	—	—	—	—							
Balance at December 31, 2018	\$ 579	173,963	\$ 1,740	\$ 1,516,543	\$ (233,847)	\$ (345,347)	\$ 1,177	\$ 940,266	\$ 1,081	\$ 941,926							
Adoption of Lease ASU (refer to Note 2)	—	—	—	—	3,182	—	—	3,182	—	3,182							
Redemptions of common stock	—	(3)	—	(23)	—	—	—	(23)	—	(23)							
Net income	25	—	—	—	351,496	—	—	351,496	275	351,796							
Other comprehensive loss	—	—	—	—	—	—	(1,213)	(1,213)	—	(1,213)							
Distribution to noncontrolling interest	(46)	—	—	—	—	—	—	—	(636)	(682)							
Distributions to holders of promoted interest	—	—	—	406	—	—	—	406	—	406							
Cash distributions declared (\$2.26999 per share)	—	—	—	—	—	(394,892)	—	(394,892)	—	(394,892)							
Contribution from noncontrolling interests	—	—	—	—	—	—	—	—	531	531							
Balance at December 31, 2019	\$ 558	173,960	\$ 1,740	\$ 1,516,926	\$ 120,831	\$ (740,239)	\$ (36)	\$ 899,222	\$ 1,251	\$ 901,031							

See accompanying notes to consolidated financial statements.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31,		
	2019	2018	2017
Operating activities:			
Net income (loss)	\$ 351,796	\$ (25,151)	\$ (26,312)
Net income (loss) from discontinued operations	353,337	(4,409)	(7,773)
Net loss from continuing operations	(1,541)	(20,742)	(18,539)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	49,823	54,130	64,377
Amortization of loan costs	2,509	2,284	2,261
Amortization of above and below market intangibles	(42)	(41)	(38)
Straight-line rent adjustments	733	(2,219)	(2,521)
Deferred income tax benefit	1,682	3,267	(9,131)
Loss on extinguishment of debt	804	96	10
Impairment provision	—	7,922	—
Gain on sale of real estate	(432)	(1,049)	—
Other non-cash operating activities	2,189	725	(751)
Changes in operating assets and liabilities:			
Other assets	(6,788)	(1,392)	(1,006)
Deferred rent and lease incentives	—	(12)	(2,960)
Accounts payable and accrued liabilities	2,484	(3,992)	6,714
Other liabilities	(350)	399	2,275
Due to related parties	(977)	(688)	476
Net cash flows provided by operating activities - continuing operations	<u>50,094</u>	<u>38,688</u>	<u>41,167</u>
Gain on sale of real estate	(336,074)	—	—
Depreciation and amortization	—	31,962	43,567
Straight-line rent adjustments	(1,242)	89	1,542
Loss on extinguishment of debt	2,547	—	229
Changes in operating assets and liabilities			
Accounts payable and accrued liabilities	(6,551)	598	1,001
Other liabilities	(3,811)	(107)	(3,109)
Other operating activities	1,650	439	(1,378)
Net cash flows provided by operating activities - discontinued operations	<u>9,856</u>	<u>28,572</u>	<u>34,079</u>
Net cash flows provided by operating activities	<u>59,950</u>	<u>67,260</u>	<u>75,246</u>
Investing activities:			
Acquisition of properties	—	—	(1,056)
Development of properties	—	(1,658)	(47,887)
Proceeds from sale of real estate	5,989	5,761	—
Capital expenditures	(6,336)	(9,789)	(8,516)
Other investing activities	1,676	173	(1,264)
Net cash provided by (used in) investing activities - continuing operations	<u>1,329</u>	<u>(5,513)</u>	<u>(58,723)</u>
Proceeds from sale of real estate	1,354,461	—	—
Capital expenditures	(1,539)	(2,789)	(5,127)
Development properties	—	(3,487)	—
Other investing activities	(723)	(2,593)	(695)
Net cash provided by (used in) investing activities - discontinued operations	<u>1,352,199</u>	<u>(8,869)</u>	<u>(5,822)</u>
Net cash provided by (used in) investing activities	<u>\$ 1,353,528</u>	<u>\$ (14,382)</u>	<u>\$ (64,545)</u>

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(in thousands)

	Year Ended December 1,		
	2019	2018	2017
Financing activities:			
Distributions to stockholders, net of distribution reinvestments	\$ (394,892)	\$ (59,051)	\$ (34,512)
Redemptions of common stock	(23)	(40,153)	(46,019)
Distribution to holder of promoted interest	—	(955)	(2,000)
Draws under credit facilities	95,000	102,000	52,000
Repayments on credit facilities	(464,125)	(59,875)	(64,863)
Proceeds from mortgage and other notes payable	21,452	65,878	166,306
Principal payments on mortgage and other notes payable	(680,864)	(67,979)	(71,543)
Contingent purchase price consideration payments	—	—	(3,645)
Payment of loan costs	(6,413)	(1,590)	(2,988)
Other financing activities	(577)	(343)	16
Net cash flows used in financing activities	(1,430,442)	(62,068)	(7,248)
Net (decrease) increase in cash and restricted cash	(16,964)	(9,190)	3,453
Cash and restricted cash at beginning of period, including assets held for sale	65,501	74,691	71,238
Cash and restricted cash at end of period, including assets held for sale	\$ 48,537	\$ 65,501	\$ 74,691
Supplemental disclosure of cash flow information (continuing operations):			
Cash paid for interest, net of capitalized interest of approximately \$0.0 million, \$0.0 million and \$1.9 million, respectively	\$ 38,961	\$ 38,734	\$ 33,283
Cash paid for income taxes	\$ 628	\$ 796	\$ 688
Supplemental disclosure of non-cash investing and financing activities:			
Amounts incurred but not paid (including amounts due to related parties):			
Accrued development costs	\$ 291	\$ 291	\$ 450
Redemptions payable	\$ —	\$ —	\$ 11,711
Distribution to holder of promoted interest	\$ —	\$ 406	\$ 955

See accompanying notes to consolidated financial statements.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

1. Organization

The Company is a Maryland corporation that incorporated on June 8, 2010 and elected to be taxed as a REIT for U.S. federal income tax purposes beginning with the year ended December 31, 2012. The Company's intention is to be organized and operate in a manner that allows it to remain qualified as a REIT for federal income tax purposes. The Company conducts substantially all of its operations either directly or indirectly through: (1) an Operating Partnership, in which the Company is the sole limited partner and its wholly owned subsidiary, CHP GP, LLC, is the sole general partner; (2) a wholly-owned TRS, CHP TRS Holding, Inc.; (3) property owner and lender subsidiaries, which are single purpose entities; and (4) investments in joint ventures.

The Company is externally managed and advised by the Advisor. The Company's properties were also managed by the Property Manager through June 28, 2018 as the property management agreement with the Property Manager was not renewed. Subsequently, the responsibilities previously undertaken by the Property Manager have been performed by the Advisor. Both the Advisor and Property Manager are affiliates of the Sponsor. The Advisor is responsible for managing the Company's day-to-day operations, serving as a consultant in connection with policy decisions to be made by the board of directors, and for identifying, recommending and executing acquisitions (through the completion of the Company's acquisition phase in 2016) and dispositions on the Company's behalf pursuant to an advisory agreement among the Company, the Operating Partnership and the Advisor. Substantially all of the Company's acquisition services were, and substantially all of the Company's operating, administrative and certain property management services are provided by affiliates of the Advisor. In addition, third-party sub-property managers have been engaged to provide certain property management services.

On September 30, 2015, the Company completed its Offerings pursuant to a registration statement on Form S-11 under the Securities Act of 1933 with the SEC. Through the close of its Offerings, the Company received aggregate subscription proceeds of approximately \$1.7 billion. In October 2015, the Company deregistered the unsold shares of its common stock under its previous registration statement on Form S-11, except for 20 million shares that it concurrently registered on Form S-3 under the Securities Exchange Act of 1933 with the SEC for the sale of additional shares of common stock through the Reinvestment Plan. Effective July 11, 2018, the Company suspended both its Reinvestment Plan and its Redemption Plan.

The Company substantially completed its acquisition stage in 2016. In 2017, the Company began evaluating Possible Strategic Alternatives to provide liquidity to its stockholders. In April 2018, the Company's board of directors formed a Special Committee to consider Possible Strategic Alternatives, including, but not limited to (i) the listing of the Company's or one of its subsidiaries' common stock on a national securities exchange, (ii) an orderly disposition of the Company's assets or one or more of the Company's asset classes and the distribution of the net sale proceeds thereof to the stockholders of the Company and (iii) a potential business combination or other transaction with a third-party or parties that provides the stockholders of the Company with cash and/or securities of a publicly traded company. During 2018, the Special Committee engaged HFF Securities L.P. (through June 2019) and KeyBanc Capital Markets Inc. to act as financial advisors to the aforementioned Special Committee. As of December 2018, as part of executing on Possible Strategic Alternatives, the Company had committed to a plan to sell a total of 70 properties including the MOB/Healthcare Portfolio (consisting of 63 MOBs, post-acute care facilities and acute care hospitals across the US), Welbrook Senior Living Grand Junction (a skilled nursing facility in Colorado) and the Perennial Communities (six skilled nursing facilities in Arkansas). During the year ended December 31, 2019, the Company sold 61 of the properties. As of December 31, 2019 the Company had nine remaining properties classified as held for sale, seven of which were under contract to sell and were ultimately sold in February and March 2020. Refer to Note 6. "Assets and Associated Liabilities Held for Sale and Discontinued Operations" and Note 18. "Subsequent Events" for additional information.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

1. Organization (continued)

As of December 31, 2019, the Company's healthcare investment portfolio was geographically diversified with properties in 27 states. As of December 31, 2019, the Company's healthcare investment portfolio, including the nine properties classified as held for sale, consisted of interests in 81 properties, including 72 seniors housing properties, seven post-acute care facilities and two acute care hospitals. The Company has primarily leased its seniors housing properties to wholly owned TRS entities and engaged independent third-party managers under management agreements to operate the properties under the RIDEA structures; however, the Company has also leased some of its properties to third-party tenants under triple-net or similar lease structures, where the tenant bears all or substantially all of the costs (including cost increases for real estate taxes, utilities, insurance and ordinary repairs). In addition, most of the Company's investments have been wholly owned, although, it has, to a lesser extent, invested through partnerships with other entities where it was believed to be appropriate and beneficial. The Company has and continues to invest in properties that have not reached full stabilization. During February and March 2020, the Company sold seven of the nine remaining properties that had been classified as held for sale as of December 31, 2019. Refer to Note 18. "Subsequent Events" for additional information.

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation — The accompanying consolidated financial statements include the Company's accounts, the accounts of wholly owned subsidiaries or subsidiaries for which the Company has a controlling interest, the accounts of VIEs in which the Company is the primary beneficiary, and the accounts of other subsidiaries over which the Company has a controlling financial interest. All material intercompany accounts and transactions have been eliminated in consolidation.

In accordance with the guidance for the consolidation of a VIE, the Company is required to identify entities for which control is achieved through means other than voting rights and to determine the primary beneficiary of its VIEs. The Company qualitatively assesses whether it is the primary beneficiary of a VIE and considers various factors including, but not limited to, the design of the entity, its organizational structure including decision-making ability and financial agreements, its ability and the rights of others to participate in policy making decisions, as well as its ability to replace the VIE manager and/or liquidate the entity.

Use of Estimates — The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements, the reported amounts of revenues and expenses during the reporting periods and the disclosure of contingent liabilities. For example, significant assumptions are made in the analysis of real estate impairments, the valuation of contingent assets and liabilities, and the valuation of restricted stock shares issued to the Advisor. Accordingly, actual results could differ from those estimates.

Depreciation and Amortization — Real estate costs related to the acquisition and improvement of properties are capitalized. Repair and maintenance costs are charged to expense as incurred and significant replacements and improvements are capitalized. Repair and maintenance costs include all costs that do not extend the useful life of the real estate asset. The Company considers the period of future benefit of an asset to determine its appropriate useful life. Real estate assets are stated at cost less accumulated depreciation, which is computed using the straight-line method of accounting over the estimated useful lives of the related assets. Buildings and improvements are depreciated on the straight-line method over their estimated useful lives, which generally are the lesser of 39 and 15 years, respectively, or the remaining life of the ground lease.

Amortization of intangible assets is computed using the straight-line method of accounting over the shorter of the respective lease term or estimated useful life. If a lease is terminated or modified prior to its scheduled expiration, the Company recognizes a loss on lease termination related to the unamortized lease-related costs not deemed to be recoverable.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

2. Summary of Significant Accounting Policies (continued)

Impairment of Real Estate Assets — Real estate assets are reviewed on an ongoing basis to determine whether there are any indicators, including property operating performance and general market conditions, that the value of the real estate properties (including any related amortizable intangible assets or liabilities) may be impaired. To assess if an asset group is potentially impaired, management compares the estimated current and projected undiscounted cash flows, including estimated net sales proceeds, of the asset group over its remaining useful life to the net carrying value of the asset group. Such cash flow projections consider factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors. In the event that the carrying value exceeds the undiscounted operating cash flows, the Company would recognize an impairment provision to adjust the carrying value of the asset group to the estimated fair value.

When impairment indicators are present for real estate indirectly owned, through an investment in a joint venture or other similar investment structure accounted for under the equity method, the Company compares the estimated fair value of its investment to the carrying value. An impairment charge will be recorded to the extent fair value of the investment is less than the carrying value and the decline in value is determined to be other than a temporary decline.

Assets Held For Sale, net and Discontinued Operations — The Company determines to classify a property as held for sale once management has the authority to approve and commits to a plan to sell the property, the property is available for immediate sale, there is an active program to locate a buyer, the sale of the property is probable and the transfer of the property is expected to occur within one year. Upon the determination to classify a property as held for sale, the Company ceases recording further depreciation and amortization relating to the associated assets and those assets are measured at the lower of its carrying amount or fair value less disposition costs and are presented separately in the consolidated balance sheets for all periods presented. In addition, the Company classifies assets held for sale as discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on the Company's operations and financial results. For any disposal(s) qualifying as discontinued operations, the Company allocates interest expense and loan cost amortization that directly relates to either: (1) expense on mortgages and other notes payable collateralized by properties classified as discontinued operations; or (2) expense on the Company's Credit Facilities, which is allocated based on the value of the properties that are classified as discontinued operations since these properties are included in the Credit Facilities' unencumbered pool of assets and the related indebtedness is required to be repaid upon sale of the properties.

Capitalized Interest — Interest and loan cost amortization attributable to funds used to finance real estate under development is capitalized as additional costs of development. The Company capitalizes interest at the weighted average interest rate of the Company's outstanding indebtedness and based on its weighted average expenditures for the period. Capitalization of interest on a specific project ceases when the project is substantially complete and ready for occupancy. During the years ended December 31, 2019, 2018 and 2017, the Company incurred interest expense and loan cost amortization of approximately \$54.3 million, \$75.0 million and \$68.3 million, respectively, of which approximately \$0.03 million, \$0.06 million and \$2.1 million, respectively, was capitalized according to this policy.

Cash — Cash consists of demand deposits at commercial banks. The Company also invests in cash equivalents consisting of highly liquid investments in money market funds with original maturities of three months or less. As of December 31, 2019, certain of the Company's cash deposits exceeded federally insured amounts. However, the Company continues to monitor the third-party depository institutions that hold the Company's cash, primarily with the goal of safeguarding principal. The Company attempts to limit cash investments to financial institutions with high credit standing; therefore, the Company believes it is not exposed to any significant credit risk on cash.

Restricted Cash — Certain amounts of cash are escrowed to fund capital expenditures, property taxes and/or insurance as required by loan or lease terms, and certain security deposits represent restricted use funds.

Loan Costs — Financing costs paid in connection with obtaining debt are deferred and amortized over the estimated life of the debt using the effective interest method. As of December 31, 2019 and 2018, the accumulated amortization of loan costs was approximately \$8.1 million and \$13.1 million, respectively.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

2. Summary of Significant Accounting Policies (continued)

Deferred Lease-Related Costs — The Company deferred lease-related costs that it incurred to obtain new or extend existing leases. The Company amortized these costs using the straight-line method of accounting over the shorter of the respective lease term or estimated useful life. If a lease was terminated or modified prior to its scheduled expiration, the Company recognized a loss on lease termination related to the unamortized deferred lease-related costs not deemed to be recoverable.

Revenue Recognition — Rental income and related revenues includes rental income that is recorded on the straight-line basis over the terms of the leases for new leases and the remaining terms of existing leases for those acquired as part of a property acquisition. The straight-line method records the periodic average amount of base rent earned over the term of a lease, taking into account contractual rent increases over the lease term. The Company records the difference between base rent revenues earned and amounts due per the respective lease agreements, as applicable, as an increase or decrease to deferred rent and lease incentives in the accompanying consolidated balance sheets. Rental income and related revenues also includes amounts for which tenants are required to reimburse the Company related to expenses incurred on behalf of the tenants, in accordance with the terms of the leases. Tenant reimbursements are recognized in the period in which the related reimbursable expenses are incurred, such as real estate taxes, common area maintenance, and similar items.

Some of the Company's leases require the tenants to pay certain additional contractual amounts that are set aside by the Company for replacements of fixed assets and other improvements to the properties. These amounts are and will remain the property of the Company during and after the term of the lease. The amounts are recorded as capital improvement reserve income at the time such amounts are earned and are included in rental income and related revenues in the accompanying consolidated statement of operations. Additional percentage rent that is due contingent upon tenant performance thresholds, such as gross revenues, is deferred until the underlying performance thresholds have been achieved.

Resident fees and services are operating revenues relating to the Company's managed seniors housing properties, which are operated under RIDEA structures. Resident fees and services directly relate to the provision of monthly goods and services that are generally bundled together under a single resident agreement.

The Company accounts for its resident agreements as a single performance obligation under ASC 606 given the Company's overall promise to provide a series of stand-ready goods and services to its residents each month. Resident fees and services are recorded in the period in which the goods are provided and the services are performed and generally consist of (1) monthly rent, which covers occupancy of the residents' unit as well as basic services, such as utilities, meals and certain housekeeping services, and (2) service level charges, such as assisted living care, memory care and ancillary services. Resident agreements are generally short-term in nature, billed monthly in advance and cancelable by the residents with a 30-day notice. Resident agreements may require the payment of upfront fees prior to moving into the community with any non-refundable portion of such fees being recorded as deferred revenue and amortized over the estimated resident stay.

Reclassifications — Certain amounts in the prior years' consolidated balance sheet, statements of operations and statements of cash flows have been reclassified to conform to the current year's presentation, primarily related to classification of certain properties as held for sale and/or discontinued operations, with no effect on the other previously reported consolidated financial statements. In addition, certain amounts in the statements of operations have been reclassified to change the presentation of Company's gain on sale of real estate and include it as a component of operating income in accordance with ASC 360-10-45-5 as a result of the SEC's elimination of Rule 3-15(a) of Regulation S-X.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

2. Summary of Significant Accounting Policies (continued)

Derivative Financial Instruments — The Company and an unconsolidated equity method investment held by the Company use or have used derivative financial instruments to partially offset the effect of fluctuating interest rates on the cash flows associated with its variable-rate debt. Upon entry into a derivative, the Company or its unconsolidated equity method investment formally designates and documents the financial instrument as a hedge of a specific underlying exposure, as well as the risk management objectives and strategies for undertaking the hedge transaction. The Company or its unconsolidated equity method investment accounts for derivatives through the use of a fair value concept whereby the derivative positions are stated at fair value in the accompanying consolidated balance sheets. The fair value of derivatives used to hedge or modify risk fluctuates over time. As such, the fair value amounts should not be viewed in isolation, but rather in relation to the cash flows or fair value of the underlying hedged transaction and to the overall reduction in the exposure relating to adverse fluctuations in interest rates on the Company's or its unconsolidated equity method investment's variable-rate debt. Realized and unrealized gain (loss) on derivative financial instruments designated by either the Company or its unconsolidated equity method investment as cash flow hedges are reported as a component of other comprehensive income (loss), a component of stockholders' equity, in the accompanying consolidated statements of comprehensive income (loss) to the extent they are effective; reclassified into earnings on the same line item associated with the hedged transaction and in the same period the hedged transaction affects earnings.

Realized and unrealized gain (loss) on derivative financial instruments designated as cash flow hedges that are entered into by the Company's equity method investment are reported as a component of the Company's other comprehensive income (loss) in proportion to the Company's ownership percentage in the investment, with reclassifications being included in equity in earnings (loss) of unconsolidated entity in the accompanying consolidated statements of operations.

Fair Value Measurements — Fair value assumptions are based on the framework established in the fair value accounting guidance under GAAP. The framework specifies a hierarchy of valuation inputs which was established to increase consistency, clarity and comparability in fair value measurements and related disclosures. The guidance describes the following fair value hierarchy based upon three levels of inputs that may be used to measure fair value, two of which are considered observable and one that is considered unobservable:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2 — Inputs, other than quoted prices included in Level 1, that are observable for the asset or liability either directly or indirectly; such as, quoted prices for similar assets or liabilities or other inputs that can be corroborated by observable market data.
- Level 3 — Unobservable inputs for the asset or liability, which are typically based on the Company's own assumptions, as there is little, if any, related market activity.

When market data inputs are unobservable, the Company utilizes inputs that it believes reflects the Company's best estimate of the assumptions market participants would use in pricing the asset or liability. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

Mortgages and Other Notes Payable — Mortgages and other notes payable are recorded at the stated principal amount and are generally collateralized by the Company's properties. Mortgages and other notes payable assumed in connection with an acquisition are recorded at fair market value as of the date of the acquisition.

Redemptions — Under the Company's Redemption Plan, a stockholder's shares were deemed to have been redeemed as of the date that the Company accepted the stockholder's request for redemption. From and after such date, the stockholder by virtue of such redemption was no longer entitled to any rights as a stockholder in the Company. Shares redeemed were retired and not available for reissue.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

2. Summary of Significant Accounting Policies (continued)

Net Loss per Share — Net loss per share is calculated based upon the weighted average number of shares of common stock outstanding during the period in which the Company was operational.

Share-Based Payments to Non-Employees — In connection with the expense support agreement described in Note 11. “Related Party Arrangements,” the Company may issue Restricted Stock to the Advisor on an annual basis in exchange for providing expense support in the event that cash distributions declared exceed MFFO as defined by the expense support agreement.

The Restricted Stock is forfeited if shareholders do not ultimately receive their original invested capital back with at least a 6% annualized return of investment upon a future liquidity or disposition event of the Company. Upon issuance of Restricted Stock, the Company measures the fair value at its then-current lowest aggregate fair value pursuant to ASC 505-50. On the date in which the Advisor satisfies the vesting criteria, the Company remeasures the fair value of the Restricted Stock pursuant to ASC 505-50 and records expense equal to the difference between the original fair value and that of the remeasurement date. In addition, given that performance is outside the control of the Advisor and involves both market conditions and counterparty performance conditions, the shares are treated as unissued for accounting purposes and the Company only includes the Restricted Stock in the calculation of diluted earnings per share to the extent their effect is dilutive and the vesting conditions have been satisfied as of the reporting date.

Pursuant to the expense support agreement, the Advisor shall be the record owner of the Restricted Stock until the shares of common stock are sold or otherwise disposed of, and shall be entitled to all of the rights of a stockholder of the Company including, without limitation, the right to vote such shares (to the extent permitted by the Company’s articles of incorporation) and receive all dividends and other distributions paid with respect to such shares. All dividends or other distributions actually paid to the Advisor in connection with the Restricted Stock shall vest immediately and will not be subject to forfeiture. The Company recognizes expense related to the dividends on the Restricted Stock shares as declared.

Segment Information — Operating segments are components of an enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. The Company has determined that it operates in one operating segment, real estate ownership. The Company’s chief operating decision maker evaluates the Company’s operations from a number of different operational perspectives including, but not limited to, a property-by-property basis, by tenant or by operator.

The Company derives all significant revenues from a single reportable operating segment of business, healthcare real estate, regardless of the type (seniors housing, medical office, etc.) or ownership structure (leased or managed). Accordingly, the Company does not report segment information; nevertheless, management periodically evaluates whether the Company continues to have one single reportable segment of business.

Redeemable Noncontrolling Interest – The Company classifies redeemable equity securities in accordance with Accounting Standard Update (“ASU”) No. 2009-04, “Liabilities (Topic 480): Accounting for Redeemable Equity Instruments,” which requires that equity securities redeemable at the option of the holder be classified outside of permanent stockholders’ equity. The Company classifies redeemable equity securities as redeemable noncontrolling interest within the accompanying consolidated balance sheets and consolidated statements of stockholders’ equity and redeemable noncontrolling interest. The Company evaluates the probability that these equity securities will become redeemable at each reporting period and, if determined probable, the Company measures the redemption value and records an adjustment to the carrying value of the equity securities as a component of redeemable noncontrolling interest.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

2. Summary of Significant Accounting Policies (continued)

Promoted Interest — The Company accounts for promoted interests with third-party developers in a manner similar to redeemable noncontrolling interests discussed above. The Company records the initial carrying value of the promoted interest at its issuance date fair value. Subsequently, as the completed developments stabilize and it becomes probable that the promoted interest thresholds will be met, the Company records a liability equal to the estimated redemption value at the end of each reporting period based on the conditions that exist as of the balance sheet date. In connection with the measurement of this liability, the Company records, as a reduction to capital in excess of par value, an amount equal to the difference between the promoted interests' carrying value and the consideration paid or payable.

Income Taxes — The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended and related regulations beginning with the year ended December 31, 2012. In order to be taxed as a REIT, the Company is subject to certain organizational and operational requirements, including the requirement to make distributions to its stockholders each year of at least 90% of its annual REIT taxable income (which is computed without regard to the dividends-paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP). If the Company qualifies for taxation as a REIT, the Company generally will not be subject to U.S. federal income tax on income that the Company distributes as dividends. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to U.S. federal income tax on its taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost, unless the IRS grants the Company relief under certain statutory provisions. Even if the Company qualifies for taxation as a REIT, it may be subject to certain state and local taxes on its income and property, and U.S. federal income and excise taxes on its undistributed income.

The Company has and will continue to form subsidiaries which may elect to be taxed as a TRS for U.S. federal income tax purposes. Under the provisions of the Internal Revenue Code and applicable state laws, a TRS will be subject to tax on its taxable income from its operations. The Company will account for federal and state income taxes with respect to a TRS using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities, the respective tax bases, operating losses and/or tax-credit carryforwards.

Investment in Unconsolidated Entity — The Company accounts for its investment in an unconsolidated joint venture under the equity method of accounting as the Company exercises significant influence, but does not maintain a controlling financial interest over these entities. The investment is recorded initially at cost and subsequently adjusted for cash contributions, distributions and equity in earnings (loss) of the unconsolidated entity. Based on the joint venture's structure and any preference the Company receives on distributions and liquidation, the Company records its equity in earnings (loss) of the unconsolidated entity under the hypothetical liquidation at book value ("HLBV") method of accounting. Under this method, the Company recognizes income or loss in each period as if the net book value of the assets in the venture were hypothetically liquidated at the end of each reporting period pursuant to the provisions of the joint venture agreement. In any given period, the Company could be recording more or less equity in earnings (loss) than actual cash distributions received or an investment balance that is more or less than what the Company may receive in the event of an actual liquidation. The Company determines whether distributions are classified as returns on investment or returns of investment based on the nature of the distribution.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

2. Summary of Significant Accounting Policies (continued)

Adopted Accounting Pronouncements — In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842): Accounting for 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 ASU requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. The ASU further modifies lessors’ classification criteria for leases and the accounting for sales-type and direct financing leases. The ASU also requires qualitative and quantitative disclosures designed to give financial statement users additional information on the amount, timing, and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, “Leases (Topic 842): Targeted Improvements,” which includes a practical expedient for lessors that allows them to elect to not separate lease and non-lease components in a contract for the purpose of revenue recognition and disclosure if certain criteria are met. The Company elected the practical expedient and applied the guidance to all of the leases that qualified under the established criteria. In December 2018, the FASB issued ASU 2018-20, “Leases (Topic 842): Narrow-Scope Improvements for Lessors,” which addressed challenges encountered in determining certain lessor costs paid by the lessee directly to third parties by allowing lessors to exclude these costs from its variable lease payments. This amendment did not have a material impact on the Company’s financial statements and related disclosures as it conformed ASC 842 to the Company’s historical accounting under ASC 840. All of the ASC 842 ASU’s are effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2018. The Company adopted these ASU’s on January 1, 2019 using a modified retrospective approach, which impacted the Company’s consolidated financial statements and related financial statement disclosures; specifically, the Company’s consolidated financial position as it relates to the required presentation for arrangements such as ground or other leases in which the Company is the lessee. However, the adoption of this ASU did not have a material impact on the Company’s consolidated results of operations or cash flows.

In June 2018, the FASB issued ASU 2018-07, “Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting,” which expands the scope to include share-based payment transactions for acquiring goods and services from nonemployees. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor’s own operations by issuing share-based payments. The amendments also clarify that this ASU does not apply to share-based payments used to provide financing to the issuer or awards granted in conjunction with selling of goods or services to customers as a part of a contract accounted for under Revenue from Contracts with Customers (Topic 606). The ASU is effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2018. The Company adopted this ASU prospectively on January 1, 2019; the adoption of which did not have a material impact on the Company’s consolidated results of operations or cash flows.

Recent Accounting Pronouncements — In June 2016, the FASB issued ASU No. 2016-13, “Measurement of Credit Losses on Financial Instruments (Topic 326),” which requires a new forward-looking expected loss model to be used for receivables, held-to-maturity debt, loans and other financial instruments. Previously, when credit losses were measured under current GAAP, an entity generally only considered past events and current conditions in measuring the incurred loss. The amendments eliminate the probable initial threshold for recognition of credit losses in current GAAP and, instead, reflect an entity’s current estimate of all expected credit losses over the life of the financial instrument. The ASU is effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2019. The Company has determined it will adopt this ASU on January 1, 2020, the adoption of which is not expected to have a material impact on the Company’s consolidated results of operations or cash flows.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
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YEAR ENDED DECEMBER 31, 2019

3. Revenue

The following tables represent the disaggregated revenue for resident fees and services during the years ended December 31, 2019, 2018 and 2017:

	Years Ended December 31,								
	Number of Units			Revenue (in millions)			Percentage of Revenues		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
<i>Resident fees and services:</i>									
Independent living	2,261	2,261	2,261	\$ 74.3	\$ 71.7	\$ 59.5	25.8 %	25.9 %	23.9 %
Assisted living	2,966	2,966	2,966	140.5	137.6	128.8	48.7 %	49.7 %	51.7 %
Memory care	853	853	853	59.4	54.4	48.9	20.6 %	19.7 %	19.6 %
Other revenues	—	—	—	14.1	12.9	11.7	4.9 %	4.7 %	4.8 %
	<u>6,080</u>	<u>6,080</u>	<u>6,080</u>	<u>\$ 288.3</u>	<u>\$ 276.6</u>	<u>\$ 248.9</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

4. Real Estate Assets, net

The gross carrying amount and accumulated depreciation of the Company's real estate assets as of December 31, 2019 and 2018 are as follows, excluding assets held for sale (in thousands):

	As of December 31,	
	2019	2018
Land and land improvements	\$ 130,371	\$ 130,133
Building and building improvements	1,478,111	1,475,789
Furniture, fixtures and equipment	85,977	81,666
Less: accumulated depreciation	<u>(281,864)</u>	<u>(232,439)</u>
Real estate investment properties, net	<u>\$ 1,412,595</u>	<u>\$ 1,455,149</u>

Depreciation expense on the Company's real estate investment properties, net was approximately \$49.4 million, \$51.6 million and \$52.0 million for the years ended December 31, 2019, 2018 and 2017, respectively. These amounts include depreciation through the determination date on assets held for sale. As described in Note 1, "Organization," during the year ended December 31, 2018, the Company committed to a plan to sell 70 properties, including the Welbrook Senior Living Grand Junction property. Management of the Company determined that the sale of the Welbrook Senior Living Grand Junction property would not cause a strategic shift in the Company's operations and that the sale of the property was not considered individually significant; therefore, this property did not qualify as discontinued operations. In connection with classifying this property as held for sale, the Company recorded an impairment provision of \$7.9 million to write-off the associated assets in excess of the estimated net sales proceeds, as it was determined that the carrying value of this property would not be recoverable. The Level 3 unobservable inputs used in determining the estimated net sales proceeds included, but were not limited to, comparable sales transactions and other information from brokers and potential buyers, as applicable. There were no impairments from continuing operations during the years ended December 31, 2019 and 2017. The Company sold the Welbrook Senior Living Grand Junction property during 2019. Refer to Note 6, "Assets and Associated Liabilities Held For Sale and Discontinued Operations" for additional information.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

5. Intangibles, net

The gross carrying amount and accumulated amortization of the Company’s intangible assets as of December 31, 2019 and 2018 are as follows (in thousands):

	As of December 31,	
	2019	2018
In-place lease intangibles	\$ 83,113	\$ 83,113
Less: accumulated depreciation	(81,893)	(81,499)
Intangible assets, net	\$ 1,220	\$ 1,614

For the years ended December 31, 2019, 2018 and 2017, amortization on the Company’s intangible assets was approximately \$0.4 million, \$2.5 million and \$12.4 million, respectively, all of which were included in depreciation and amortization.

The weighted average remaining useful life of the Company’s intangibles as of December 31, 2019 is 3.1 years.

The estimated future amortization on the Company’s intangibles for each of the next five years and thereafter, in the aggregate, as of December 31, 2019 is as follows (in thousands):

2020	\$	394
2021		394
2022		253
2023		74
2024		74
Thereafter		31
	\$	1,220

6. Assets and Associated Liabilities Held For Sale and Discontinued Operations

As part of executing on Possible Strategic Alternatives as described in Note 1. “Organization”, as of December 31, 2018, the Company had committed to a plan to sell a total of 70 properties, including: (1) the Perennial Communities (six skilled nursing facilities located in Arkansas); (2) the Grand Junction skilled nursing facility located in Colorado; and (3) the MOB/Healthcare Portfolio (consisting of 53 MOBs, five post-acute care facilities and five acute care hospitals), and classified the 70 properties as held for sale. The Company believed the sale of the MOB/Healthcare Portfolio represented a strategic shift in the Company’s operations and, therefore, classified the operations of those 63 properties as discontinued operations. The sale of the other seven properties would not cause a strategic shift in the Company’s operations, and were not considered individually significant; therefore, those properties did not qualify as discontinued operations.

In April 2019, the Company completed the sale of four post-acute care properties (“IRF Sale”) which were part of the MOB/Healthcare Portfolio to an unrelated third party and in May 2019, the Company sold 55 medical office buildings and related properties (“MOB Sale”), which were part of the MOB/Healthcare Portfolio, to a subsidiary of Welltower Inc. and received approximately \$1,321.2 million in net sales proceeds and used the net sales proceeds to: (1) repay indebtedness collateralized by or allocated to the 59 properties comprising the MOB Sale; (2) strategically rebalance other corporate borrowings (3) make a special cash distribution to our stockholders and (4) for other corporate purposes. During the last half of 2019, the Company sold one acute care hospital from the MOB/Healthcare Portfolio plus the Welbrook Senior Living Grand Junction property to unrelated third parties and received net sales proceeds of \$39.0 million. The Company recorded aggregate gains on sale for financial reporting purposes of approximately \$336.5 million related to the sale of the 61 properties (which included 60 properties from the MOB/Healthcare Portfolio). As of December 31, 2019, the Company had nine properties classified as held for sale.

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6. Assets and Associated Liabilities Held for Sale and Discontinued Operations (continued)

In December 2019, the Company entered into the Perennial Communities Sale Agreement for the sale of the six skilled nursing facilities in Arkansas with an unrelated third party for a gross sales price of \$55.0 million, subject to certain pro-rations and other adjustments, as described in the Perennial Communities Sale Agreement. The anticipated net sales proceeds from the sale of the Perennial Communities is expected to exceed the net carrying values of these properties. In addition, in December 2019, the Company entered into the New Orleans Sale Agreement for the sale of its acute care hospital in New Orleans for a gross sales price of \$28.65 million, subject to certain pro-rations and other adjustments as described in the New Orleans Sale Agreement. The Company recorded an impairment provision of \$0.1 million related to the property in New Orleans to write-off the associated assets in excess of the estimated net sales proceeds, as it was determined that the carrying value of this property would not be recoverable. The Company sold the property related to the New Orleans Sale Agreement and the six properties related to the Perennial Communities Sale Agreement in February and March 2020, respectively. See Note 18 “Subsequent Events” for additional information.

As of December 31, 2019, the nine properties classified as assets held for sale and liabilities associated with those assets held for sale consisted of the following (in thousands):

	As of December 31, 2019		
	MOB/Healthcare Portfolio	Other	Total
Real estate held for sale, net	\$ 48,366	\$ 46,908	\$ 95,274
Intangibles, net	6,252	800	7,052
Deferred rent and lease incentives	3,158	4,952	8,110
Other assets	1,200	68	1,268
Restricted cash	118	72	190
Assets held for sale, net	\$ 59,094	\$ 52,800	\$ 111,894
Accounts payable and accrued liabilities	\$ 34	\$ 3	\$ 37
Other liabilities	392	684	1,076
Liabilities associated with assets held for sale	\$ 426	\$ 687	\$ 1,113

As of December 31, 2018, the 70 properties classified as assets held for sale and liabilities associated with those assets held for sale consisted of the following (in thousands):

	As of December 31, 2018		
	MOB/Healthcare Portfolio	Other	Total
Real estate held for sale, net	\$ 952,656	\$ 51,339	\$ 1,003,995
Real estate under development	3,490	—	3,490
Intangibles, net	82,417	800	83,217
Deferred rent and lease incentives	36,562	6,501	43,063
Other assets	11,425	182	11,607
Restricted cash	2,013	260	2,273
Assets held for sale, net	\$ 1,088,563	\$ 59,082	\$ 1,147,645
Mortgages and other notes payable	\$ 492,701	\$ 8,097	\$ 500,798
Credit facilities	212,731	34,778	247,509
Other liabilities	16,653	634	17,287
Accounts payable and accrued liabilities	8,425	—	8,425
Liabilities associated with assets held for sale	\$ 730,510	\$ 43,509	\$ 774,019

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
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6. Assets and Associated Liabilities Held For Sale and Discontinued Operations (continued)

The Company classified the revenues and expenses related to the Company's MOB/Healthcare Portfolio, which consisted of 63 properties, as discontinued operations in the accompanying consolidated statements of operations, as management believed the sale of these properties represented a strategic shift in the Company's operations. The following table is a summary of income (loss) from discontinued operations for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	<u>Years Ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Revenues:			
Rental income and related revenues	\$ 50,379	\$ 114,719	\$ 113,709
Operating expenses:			
Property operating expenses	11,376	30,538	30,254
General and administrative	470	1,291	1,086
Asset management fees	4,984	11,984	12,042
Property management fees	1,257	3,679	4,249
Financing coordination fees	—	2,326	—
Contingent purchase price consideration adjustment	—	—	47
Impairment provision	67	4,392	—
Depreciation and amortization	—	31,961	43,567
Total operating expenses	<u>18,154</u>	<u>86,171</u>	<u>91,245</u>
Gain on sale of real estate	<u>336,074</u>	<u>—</u>	<u>—</u>
Operating income	<u>368,299</u>	<u>28,548</u>	<u>22,464</u>
Other income (expense):			
Interest and other income (expense)	56	109	(73)
Interest expense and loan cost amortization	<u>(14,831)</u>	<u>(33,060)</u>	<u>(30,089)</u>
Total other income (expense)	<u>(14,775)</u>	<u>(32,951)</u>	<u>(30,162)</u>
Income (loss) before income taxes	353,524	(4,403)	(7,698)
Income tax expense	<u>(187)</u>	<u>(6)</u>	<u>(75)</u>
Income (loss) from discontinued operations	<u>\$ 353,337</u>	<u>\$ (4,409)</u>	<u>\$ (7,773)</u>

7. Operating Leases

As of December 31, 2019, excluding the nine remaining properties classified as held for sale, the Company owned 15 seniors housing properties that have been leased to tenants under triple-net operating leases. Under the terms of the Company's triple-net lease agreements, each tenant is responsible for the payment of property taxes, general liability insurance, utilities, repairs and maintenance, including structural and roof maintenance expenses. Each tenant is expected to pay real estate taxes directly to the taxing authorities and, therefore, such amounts are not included in the Company's consolidated financial statements. However, if the tenant does not pay the real estate taxes, the Company would be liable for such amounts. As of December 31, 2019, the total annualized property tax assessed on these properties is approximately \$3.2 million.

As of December 31, 2019, excluding the nine remaining properties classified as held for sale, the Company's triple-net operating leases had a weighted average remaining lease term of 5.3 years based on annualized base rents expiring between 2022 and 2027, subject to the tenants' options to extend the lease terms by an additional five years. In addition, certain tenants hold options to extend the lease terms for multiple five year periods, which are generally subject to similar terms and conditions provided under the initial lease term, including rent increases. The Company's lease term is determined based on the non-cancellable lease term unless economic incentives make it reasonably certain that an extension option will be exercised, in which case the Company includes the extended lease term.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
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YEAR ENDED DECEMBER 31, 2019

7. Operating Leases (continued)

The following are future minimum lease payments to be received under non-cancellable operating leases for the five years and thereafter, in the aggregate, as of December 31, 2019, excluding the nine remaining properties classified as held for sale (in thousands):

2020	\$	28,526
2021		29,128
2022		21,542
2023		20,949
2024		21,457
Thereafter		29,602
	\$	<u>151,204</u>

The above future minimum lease payments to be received exclude straight-line rent adjustments and base rent attributable to any renewal options exercised by the tenants in the future. Several of our operating leases include options to extend the lease term. For purposes of determining the lease term, we exclude these extension periods unless it is reasonably certain at lease commencement that the extension options will be exercised.

8. Variable Interest Entities

As of December 31, 2019 and 2018, the Company had two and eight subsidiaries, respectively, classified as VIEs. The change in the number of VIEs across periods resulted from three VIE properties being sold in connection with the MOB Sale as well as the repayment of three construction loans related to the Company's completed developments. The aggregate carrying amount and major classifications of the consolidated assets that can be used to settle obligations of the VIEs and liabilities of the consolidated VIEs that are non-recourse to the Company as of December 31, 2019 and December 31, 2018 are as follows (in thousands):

	<u>As of December 31,</u>	
	<u>2019</u>	<u>2018</u>
Assets:		
Real estate investment properties, net	\$ 45,329	\$ 146,341
Assets held for sale, net ⁽¹⁾	\$ —	\$ 39,601
Cash	\$ 1,024	\$ 342
Other assets	\$ 577	\$ 678
Deferred rent and lease incentives	\$ —	\$ 7,160
Restricted cash	\$ 76	\$ 208
Liabilities:		
Mortgages and other notes payable, net	\$ 29,148	\$ 102,578
Liabilities associated with assets held for sale ⁽¹⁾	\$ —	\$ 30,695
Accounts payable and accrued liabilities	\$ 1,286	\$ 784
Other liabilities	\$ 219	\$ 1,321

FOOTNOTE:

(1) Refer to Note 6. "Assets and Associated Liabilities Held For Sale and Discontinued Operations" for additional information.

The Company's maximum exposure to loss as a result of its involvement with these VIEs is limited to its net investment in these entities which totaled approximately \$14.4 million as of December 31, 2019. The Company's exposure is limited because of the non-recourse nature of the borrowings of the VIEs.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

8. Variable Interest Entities (continued)

As of December 31, 2019, the Company had two subsidiaries which are classified as VIEs. These subsidiaries are joint ventures with completed real estate under development in which their equity interest consists of non-substantive protective voting rights. Additionally, one of the subsidiaries has insufficient equity at risk due to the development nature of the joint venture. The Company determined it is the primary beneficiary and holds a controlling financial interest in each of these subsidiaries due to its power to direct the activities that most significantly impact the economic performance of the entities, as well as its obligation to absorb the losses and its right to receive benefits from these entities that could potentially be significant to these entities. As such, the transactions and accounts of these VIEs are included in the accompanying consolidated financial statements.

9. Contingent Purchase Price Consideration

During the years ended December 31, 2019 and 2018, the Company did not have any adjustments or cash flows related to contingent purchase price consideration. The following tables provide a roll-forward of the fair value of the Company's aggregate contingent purchase price consideration for the year ended December 31, 2017 :

<u>Property</u>	<u>Year Ended December 31, 2017</u>				
	<u>Beginning asset (liability) as of December 31, 2016</u>	<u>Contingent Consideration Payment (Receipt)</u>	<u>Change in Fair Value</u>	<u>Contingent Consideration in Connection with Acquisition</u>	<u>Ending asset (liability) as of December 31, 2017</u>
Superior Residences of Panama City ⁽¹⁾	\$ (4,000)	\$ 4,000	\$ —	\$ —	\$ —
	<u>\$ (4,000)</u>	<u>\$ 4,000</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

FOOTNOTES:

- (1) In connection with the purchase of Superior Residences of Panama City, FL, the Company entered into an earn-out agreement with the seller whereby up to \$4 million in additional consideration was owed in the event that certain performance targets were met during the immediate 36 months post-closing. The Company paid the additional consideration and has no remaining obligations pursuant to the Panama City Earn-Out agreement.

Fair Value Measurements

The fair value of the contingent purchase price consideration was based on a then-current income approach that was primarily determined based on the present value and probability of future cash flows using internal underwriting models. The income approach further included estimates of risk-adjusted rate of return and capitalization rates for the property. Since this methodology included inputs that were less observable by the public and were not necessarily reflected in active markets, the measurements of the estimated fair value related to the Company's contingent purchase price consideration were categorized as Level 3 on the three-level fair value hierarchy.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

10. Indebtedness

The following table provides details of the Company's indebtedness as of December 31, 2019 and 2018, excluding indebtedness related to assets held for sale (in thousands):

	As of December 31,	
	2019	2018
Mortgages payable and other notes payable:		
Fixed rate debt	\$ 368,974	\$ 358,843
Variable rate debt ⁽¹⁾⁽²⁾	8,282	174,046
Mortgages and other notes payable ⁽³⁾	377,256	532,889
Premium ⁽⁴⁾	142	184
Loan costs, net	(1,470)	(2,429)
Total mortgages and other notes payable, net	375,928	530,644
Credit facilities:		
2014 Revolving Credit Facility ⁽¹⁾⁽²⁾⁽⁵⁾	—	—
First Term Loan Facility ⁽²⁾	—	151,616
Second Term Loan Facility ⁽¹⁾⁽²⁾	—	275,000
2019 Revolving Credit Facility ⁽¹⁾⁽⁵⁾	40,000	—
2019 Term Loan Facility ⁽¹⁾	265,000	—
Loan costs, net related to Term Loan Facilities	(2,050)	(1,003)
Total credit facilities, net	302,950	425,613
Total indebtedness, net	<u>\$ 678,878</u>	<u>\$ 956,257</u>

FOOTNOTES:

- (1) As of December 31, 2019 and 2018, the Company had entered into interest rate caps with notional amounts of approximately \$281.0 million and \$330.0 million, respectively. Refer to Note 12. "Derivative Financial Instruments" for additional information.
- (2) As of December 31, 2019, the Company did not have any interest rate swaps. As of December 31, 2018, the Company had entered into interest rate swaps with notional amounts of approximately \$151.6 million. These interest rate swaps were settled in connection with the refinancing of the credit facilities in May 2019. Refer to Note 12. "Derivative Financial Instruments" for additional information.
- (3) As of December 31, 2019 and 2018, the Company's mortgages and other notes payable are collateralized by 32 and 37 properties, respectively, with total carrying value of approximately \$567.8 million and \$769.0 million, respectively.
- (4) Premium is reflective of the Company recording mortgage note payables assumed at fair value on the respective acquisition dates.
- (5) As of December 31, 2019 and 2018, the Company had undrawn availability under the applicable revolving credit facility of approximately \$181.7 million and \$14.7 million, respectively, based on the value of the properties in the unencumbered pool of assets supporting the loan, which includes certain assets held for sale.

In May 2019, the Company completed the sale of the 55 properties (the "MOB Sale") and used a portion of the net cash proceeds from the MOB Sale to repay the Company's unsecured credit facilities which, including indebtedness allocated to certain of the 55 properties comprising the MOB Sale, resulted in total repayments on the Company's unsecured credit facilities as follows: (1) approximately \$229.1 million on the Company's 2014 Revolving Credit Facility; (2) \$175 million on the Company's First Term Loan Facility; and (3) \$275 million on the Company's Second Term Loan Facility.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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10. Indebtedness (continued)

Concurrently, in May 2019, the Company entered into new unsecured credit facilities, which include: (1) a \$250 million senior unsecured revolving credit facility (“2019 Revolving Credit Facility”) and (2) a \$265 million senior unsecured term loan facility (“2019 Term Loan Facility” and together with the 2019 Revolving Credit Facility, “2019 Credit Facilities”). The 2019 Revolving Credit Facility has an initial four-year term through May 2023, plus one 12-month extension option, and the 2019 Term Loan Facility has an initial five-year term through May 2024. The 2019 Credit Facilities bear interest based on 30-day LIBOR plus a spread that varies with the Company’s leverage ratio. In connection with the refinancing of the 2014 Credit Facilities, the Company paid financing coordination fees to the Advisor of approximately \$5.2 million; refer to Note 11. “Related Party Arrangements” for additional information.

During the year ended December 31, 2019, the Company repaid the outstanding construction loan related to Wellmore of Lexington of approximately \$21.0 million prior to its September 2019 maturity. In addition, the Company repaid the outstanding mortgage or construction loans related to Waterstone at Augusta, Wellmore of Tega Cay, Dogwood Forest of Grayson and Palmilla Senior Living aggregating approximately \$74.4 million. In connection therewith, the Company wrote-off approximately \$0.2 million in unamortized loan costs and paid exit fees of approximately \$0.4 million, which are included in interest expense and loan cost amortization in the accompanying consolidated statements of operations for the year ended December 31, 2019. These construction loans were scheduled to mature during 2020.

In November 2019, the Company refinanced the construction loan related to Watercrest at Katy of approximately \$21.3 million which was scheduled to mature in December 2019. The new mortgage loan matures in November 2024 with an interest rate of 3.25% per annum.

The following is a schedule of future principal payments and maturity for the Company’s total indebtedness for the next five years and thereafter, in the aggregate, as of December 31, 2019 (in thousands):

2020	\$	39,642
2021		11,311
2022		282,220
2023		63,417
2024		285,666
Thereafter		—
	<u>\$</u>	<u>682,256</u>

In February 2020, the Company repaid the outstanding mortgage loan related to the Primrose II communities that was scheduled to mature in June 2020 as described further in Note 18. “Subsequent Events”.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
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YEAR ENDED DECEMBER 31, 2019

10. Indebtedness (continued)

The following table details the Company's mortgages and other notes payable as of December 31, 2019 and 2018, excluding assets held for sale (in thousands):

Property and Loan Type	Interest Rate at December 31, 2019 ⁽¹⁾	Payment Terms	Maturity Date ⁽²⁾	December 31,	
				2019	2018
Primrose II Communities; Mortgage Loan	3.81% per annum	Monthly principal and interest payments based on a 30-year amortization schedule	6/1/20	\$ 20,533	\$ 21,047
Pacific Northwest Communities; Mortgage Loans	4.30% per annum	Monthly principal and interest payments based on a 25-year amortization schedule	1/5/22	196,598	202,978
Capital Health Communities; Mortgage Loans ⁽³⁾	(3)	Monthly principal and interest payments based on a 25-year amortization schedule	1/5/22	58,387	60,902
Primrose I Communities; Mortgage Loan ⁽⁴⁾	4.11% per annum	Monthly principal and interest payments based on a 30-year amortization schedule	9/1/22	47,557	48,753
Watercrest at Mansfield; Mortgage Loan ⁽⁵⁾	4.68% per annum	Monthly principal and interest payments based on a total payment of \$143,330	6/1/23	24,625	25,163
Watercrest at Katy; Mortgage Loan	3.25% per annum	Monthly interest only payments through November 2022; principal and interest payments thereafter based on a 25-year amortization schedule	11/15/24	21,274	—
		Total fixed rate debt		368,974	358,843
Shores of Lake Phalen; Secured Term Loan	30-day LIBOR plus 2.42% per annum	Monthly interest only payments through June 2019	6/30/19	—	16,859
Wellmore of Lexington; Construction Loan	30-day LIBOR plus 2.5% per annum	Monthly interest only payments through September 2019	9/13/19	—	35,421
Watercrest at Katy Construction Loan	30-day LIBOR plus 2.75% per annum	Monthly principal and interest payments based on a 30-year amortization schedule	12/27/19	—	21,552
Wellmore of Tega Cay; Construction Loan	30-day LIBOR plus 2.65% per annum	Monthly interest only payments for the first 12 months; principal and interest payments thereafter based on a 30-year amortization schedule	3/1/20	—	27,715
Palmilla Senior Living; Mortgage Loan	30-day LIBOR plus 2.0% per annum	Monthly interest only payments through April 2017; principal and interest payments thereafter based on a 30-year amortization schedule	3/22/20	—	26,478
Waterstone on Augusta; Construction Loan	30-day LIBOR plus 3.0% per annum	Monthly interest only payments through September 2018; principal and interest payments thereafter based on a 30-year amortization schedule	9/1/20	—	18,830

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
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10. Indebtedness (continued)

Property and Loan Type	Interest Rate at December 31, 2019 ⁽¹⁾	Payment Terms	Maturity Date ⁽²⁾	December 31,	
				2019	2018
Fieldstone at Pear Orchard; Construction Loan	30-day LIBOR plus 2.9% per annum	Monthly interest only payments through September 2018; principal payments thereafter based on a 25-year amortization schedule	10/15/20	8,282	10,791
Dogwood Forest of Grayson; Construction Loan	30-day LIBOR plus 3.0% per annum	Monthly interest only payments through December 2018; principal payments thereafter based on a 30-year amortization schedule	12/1/20	—	16,400
Total variable rate debt				8,282	174,046
Total mortgages and other notes payable, net				\$ 377,256	\$ 532,889

FOOTNOTES:

- (1) The 30-day and 90-day LIBOR were approximately 1.76% and 1.91%, respectively, as of December 31, 2019 and approximately 2.50% and 2.81%, respectively, as of December 31, 2018.
- (2) Represents the initial maturity date (or, as applicable, the maturity date as extended). Certain of the Company's mortgages and other notes payable agreements include extension options held by the Company under which the maturity dates may be extended beyond the date presented, subject to certain lender conditions and/or related fees.
- (3) Consists of a mortgage loan and a supplemental loan. The mortgage loan accrues interest at a fixed rate equal to 4.25% per annum. The supplemental loan accrues interest at a fixed rate equal to 4.3% per annum.
- (4) If prepaid prior to March 1, 2022, the Primrose I Communities Mortgage Loan is subject to a prepayment penalty in an amount equal to the greater of (i) 1% of the principal being repaid, or (ii) an amount calculated on the principal being repaid, multiplied by the difference between the Primrose I Communities Mortgage Loan interest rate, and a calculated yield rate tied to the rates on applicable U.S. Treasuries. If prepayment is made between March 1, 2022, and May 31, 2022, the prepayment penalty will be 1% of the outstanding principal balance of the Primrose I Communities Mortgage Loan. No prepayment fee is required if the Primrose I Communities Mortgage Loan is prepaid between June 1, 2022 and maturity. Partial prepayment of a loan is not permitted. The loan is transferable upon sale of the assets subject to lender approval.
- (5) The balance for this loan excludes a remaining premium of \$0.1 million related to the mortgage note payable assumed being recorded at fair value on the acquisition date.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

10. Indebtedness (continued)

The following table provide details of the Company's mortgages and other notes payable included within the liabilities associated with assets held for sale as of December 31, 2019 and 2018 (in thousands):

<u>Property and Loan Type</u>	<u>Interest Rate</u> ⁽¹⁾	<u>Payment Terms</u>	<u>Maturity Date</u> ⁽²⁾	<u>December 31,</u>	
				<u>2019</u>	<u>2018</u>
Novi Orthopaedic Center; Mortgage Loan	3.61% per annum	Monthly interest only payments through June 2018; principal and interest payments thereafter based on a 25-year amortization schedule	6/15/20	\$ —	\$ 19,581
ProMed Medical Building I; Mortgage Loan	3.64% per annum	Monthly principal and interest payments based upon a 30-year amortization schedule	1/15/22	—	6,473
540 New Waverly Place; Mortgage Loan	4.08% per annum	Monthly principal and interest payments based upon a 25-year amortization schedule	5/31/28	—	6,452
LaPorte Cancer Center; Mortgage Loan	4.25% per annum (through 2020)	Monthly principal and interest payments based on a 25-year amortization schedule	6/14/28	—	7,335
		Total fixed rate debt		—	39,841
Calvert Medical Office Properties; Mortgage Loan	30-day LIBOR plus 2.50% per annum	Monthly interest only payments for the first 18 months; principal and interest payments thereafter based on a 30-year amortization schedule	8/29/18	—	—
Welbrook Senior Living Grand Junction; Secured Term Loan	30-day LIBOR plus 2.42% per annum	Monthly interest only payments through June 2019	6/30/19	—	8,141
Medical Portfolio II Properties; Mortgage Loan	90-day LIBOR plus 2.35% at 0.25% LIBOR floor	Monthly principal and interest payments based on a 25-year amortization schedule	7/14/19	—	77,074
Northwest Medical Park; Mortgage Loan	30-day LIBOR plus 2.30% per annum	Monthly principal and interest payments based upon a 25-year amortization schedule	10/31/19	—	6,628
Lee Hughes Medical Building; Mortgage Loan	30-day LIBOR plus 1.85% per annum	Monthly principal and interest payments based on a 30-year amortization schedule	3/5/20	—	17,043

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
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10. Indebtedness (continued)

<u>Property and Loan Type</u>	<u>Interest Rate at</u>	<u>Payment Terms</u>	<u>Maturity Date</u> ⁽²⁾	<u>December 31,</u>	
	<u>December 31,</u>			<u>2019</u>	<u>2018</u>
	<u>2019</u> ⁽¹⁾				
Triangle Orthopaedic; Mortgage Loan	30-day LIBOR plus 2.25% per annum	Interest only payments through March 2017; principal payments thereafter based on a 30-year amortization schedule	4/11/21	\$ —	\$ 36,962
Cobalt Rehabilitation Hospital Surprise; Mortgage Loan	30-day LIBOR plus 2.6% per annum at 0.4% LIBOR floor	Monthly interest only payments through May 2017; principal payments thereafter based on a 25-year amortization schedule	5/19/22	—	14,829
Knoxville Medical Office Properties and Claremont Medical Office; Mortgage Loan	30-day LIBOR plus 2.45% per annum	Monthly principal and interest payments based on a 30-year amortization schedule	5/24/22	—	51,575
Cobalt Rehabilitation Hospital New Orleans; Mortgage Loan	30-day LIBOR plus 2.45% per annum at 0.55% LIBOR floor	Monthly interest only payments through October 2017; principal payments thereafter based on a 25-year amortization schedule	10/19/22	—	19,055
MHOSH; Mortgage Loan	30-day LIBOR plus 2.20% per annum	Interest only payments through June 2020; principal payments thereafter based on a 30-year amortization schedule	5/24/23	—	57,630
Southeast Medical Office Properties; Mortgage Loan	30-day LIBOR plus 2.0% per annum	Interest only payments through January 2021; principal payments thereafter based on a 30-year amortization schedule	6/14/23	—	175,000
		Total variable rate debt		—	463,937
		Total indebtedness associated with assets held for sale		\$ —	\$ 503,778

FOOTNOTES:

- (1) The 30-day and 90-day LIBOR were approximately 2.50% and 2.81%, respectively, as of December 31, 2018.
- (2) Represents the initial maturity date (or, as applicable, the maturity date as extended). These loans were repaid during 2019 with the related sales of the properties.

The following table provides the details of the fair market value and carrying value of the Company's indebtedness as of December 31, 2019 and 2018 (in millions):

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Mortgages and other notes payable, net	\$ 381.2	\$ 375.9	\$ 528.7	\$ 530.6
Credit facilities	\$ 305.0	\$ 303.0	\$ 426.6	\$ 425.6
Indebtedness associated with assets held for sale	\$ —	\$ —	\$ 751.8	\$ 748.3

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
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10. Indebtedness (continued)

These fair market values are based on current rates and spreads the Company would expect to obtain for similar borrowings. Since this methodology includes inputs that are less observable by the public and are not necessarily reflected in active markets, the measurement of the estimated fair values related to the Company's mortgage notes payable is categorized as Level 3 on the three-level valuation hierarchy. The estimated fair value of accounts payable and accrued liabilities approximates the carrying value as of December 31, 2019 and 2018 because of the relatively short maturities of the obligations.

All of the Company's mortgage and construction loans contain customary financial covenants and ratios; including (but not limited to) the following: debt service coverage ratio, minimum occupancy levels, limitations on incurrence of additional indebtedness, etc.

The credit facilities contain affirmative, negative, and financial covenants which are customary for loans of this type, including (but not limited to): (i) maximum leverage, (ii) minimum fixed charge coverage ratio, (iii) minimum consolidated net worth, (iv) restrictions on payments of cash distributions except if required by REIT requirements, (v) maximum secured indebtedness, (vi) maximum secured recourse debt, (vii) minimum unsecured interest coverage, (viii) maximum unsecured indebtedness ratio and (ix) limitations on certain types of investments and with respect to the pool of properties supporting borrowings under the credit facilities, minimum weighted average occupancy, and remaining lease terms, as well as property type, MSA, operator, and asset value concentration limits. The limitations on distributions generally include a limitation on the extent of allowable distributions, which are not to exceed the greater of 95% of adjusted FFO (as defined per the credit facilities) and the minimum amount of distributions required to maintain the Company's REIT status. As of December 31, 2019, the Company was in compliance with all financial covenants.

11. Related Party Arrangements

The Company is externally advised and has no direct employees. Certain of the Company's executive officers are executive officers of, or are on the board of managers of the Advisor.

In connection with services provided to the Company, affiliates are entitled to the following fees:

Advisor — The Advisor and certain affiliates are entitled to receive fees and compensation in connection with the acquisition, management and sale of the Company's assets, as well as the refinancing of debt obligations of the Company or its subsidiaries. In addition, the Advisor and its affiliates are entitled to reimbursement of actual costs incurred on behalf of the Company in connection with the Company's organizational, offering, acquisition and operating activities. Pursuant to the advisory agreement, as amended, the Advisor receives investment services fees equal to 1.85% of the purchase price of properties (including its proportionate share of properties acquired through joint ventures) for services rendered in connection with the selection, evaluation, structure and purchase of assets. In addition, the Advisor is entitled to receive a monthly asset management fee of 0.08334% of the average real estate asset value (as defined in the advisory agreement) of the Company's properties, including its proportionate share of properties owned through joint ventures. The Advisor will also receive a financing coordination fee for services rendered with respect to refinancing of any debt obligations of the Company or its subsidiaries equal to 1.0% of the gross amount of the refinancing.

The Company will pay the Advisor, if a substantial amount of services are provided as determined by the Company's independent directors, a disposition fee in an amount equal to (a) 1% of the gross market capitalization of the Company upon the occurrence of a listing on a national securities exchange, or 1% of the gross consideration paid upon the occurrence of a liquidity event as a result of a merger, share exchange or acquisition or similar transaction pursuant to which the stockholders receive cash and/or listed or non-listed securities, or (b) 1% of the gross sales price upon the sale or transfer of one or more assets (including a sale of all the Company's assets). The Company will not pay its Advisor a disposition fee in connection with the sale of investments that are securities. A disposition fee in the form of an usual and customary brokerage fee may be paid to an affiliate or related party of the Advisor, provided that when added to the sum of all brokerage and real estate fees and commissions paid unaffiliated parties, the disposition fee to the Advisor may not exceed the lesser of (i) a competitive real estate or brokerage commission or (ii) an amount equal to 6% of the gross sales price.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
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11. Related Party Arrangements (continued)

Under the advisory agreement and the Company's articles of incorporation, the Advisor will be entitled to receive certain subordinated incentive fees upon (a) sales of assets and/or (b) a listing (which would also include the receipt by the Company's stockholders of securities that are approved for trading on a national securities exchange in exchange for shares of the Company's common stock as a result of a merger, share acquisition or similar transaction). However, once a listing occurs, the Advisor will not be entitled to receive an incentive fee on subsequent sales of assets. The incentive fees are calculated pursuant to formulas set forth in the expense support agreement, the advisory agreement and the Company's articles of incorporation. All incentive fees payable to the Advisor are subordinated to the return to investors of their invested capital plus a 6% cumulative, noncompounded annual return on their invested capital. Upon termination or non-renewal of the advisory agreement by the Advisor for good reason (as defined in the advisory agreement) or by the Company other than for cause (as defined in the advisory agreement), a listing or sale of assets after such termination or non-renewal will entitle the Advisor to receive a pro-rated portion of the applicable subordinated incentive fee.

In addition, the Advisor or its affiliates may be entitled to receive fees that are usual and customary for comparable services in connection with the financing, development, construction or renovation of a property, subject to approval of the Company's board of directors, including a majority of its independent directors.

Pursuant to the advisory agreement, the Advisor shall reimburse the Company the amount by which the total operating expenses paid or incurred by the Company exceed, in any four consecutive fiscal quarters commencing with the Expense Year ending June 30, 2013, the greater of 2% of average invested assets or 25% of net income (as defined in the advisory agreement) ("Limitation"), unless a majority of the Company's independent directors determines that such excess expenses are justified based on unusual and non-recurring factors ("Expense Cap Test"). In performing the Expense Cap Test, the Company uses operating expenses on a GAAP basis after making adjustments for the benefit of expense support under the Expense Support Agreement. For the Expense Year ended December 31, 2019, the Company did not incur operating expenses in excess of the Limitation.

Property Manager — Through June 2018, pursuant to a property management agreement, as amended, with the Property Manager which was not renewed and expired on June 28, 2018, the Property Manager received property management fees of (a) 2% of annual gross rental revenues from single tenant properties, and (b) 4% of annual gross rental revenues from multi-tenant properties. In the event that the Company contracted directly with a third-party property manager, the Company paid the Property Manager an oversight fee of up to 1% of annual gross revenues of the property managed; however, in no event would the Company have paid both a property management fee and an oversight fee with respect to the same property. The Company paid to the Property Manager a construction management fee equal to 5% of hard and soft costs associated with the initial construction or renovation of a property, or with the management and oversight of expansion projects and other capital improvements, in those cases in which the value of the construction, renovation, expansion or improvements exceeded (i) 10% of the initial purchase price of the property, and (ii) \$1.0 million, which the fee was due and payable upon completion of such projects.

Expense Support Agreement — Pursuant to the original expense support agreement, the Company's Advisor agreed to forgo the payment of fees in cash and accept Restricted Stock for services in an amount equal to the positive excess, if any, of (a) aggregate stockholder cash distributions declared for the applicable quarter, over (b) aggregate MFFO, as defined. Effective January 1, 2016, the Advisor expense support was amended to change the calculation and determination date of the expense support amounts from each calendar quarter on a non-cumulative basis, to each calendar year on a cumulative year-to-date basis. The Restricted Stock is subordinated and forfeited to the extent that shareholders do not receive their invested capital plus a 6% cumulative noncompounded annual return upon ultimate liquidity of the Company. Any amounts settled, and for which restricted stock shares were issued pursuant to the original and amended expense support agreements, have been permanently settled and the Company has no further obligation to pay such amounts.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
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11. Related Party Arrangements (continued)

In February 2017, the Company's board of directors approved the fourth amended and restated expense support agreement with the Advisor that was effective January 1, 2017. This amendment limited the annual expense support amount, in the aggregate, to an annualized four percent of the weighted average of the Board's most recent determination of NAV per share and changed the calculation to exclude the impact of completed development properties for a specified period of time after the property is placed into service (as defined in the agreement).

The aforementioned amendment, along with the original expense support agreement and previous amendments govern the fees and expenses charged by the Advisor to the Company. Under the terms of the expense support agreement, for each quarter within a calendar expense support year, the Company will record a proportional estimate of the cumulative year-to-date period based on an estimate of expense support amounts for the calendar expense support year. Moreover, in exchange for services rendered and in consideration of the expense support provided under the expense support agreement, the Company will issue, within 90 days following the determination date, a number of shares of Restricted Stock equal to the quotient of the expense support amounts provided by the Advisor for the preceding calendar year divided by the Company's then-current estimated NAV per share of common stock. The terms of the expense support agreement automatically renew for consecutive one year periods, subject to the right of the Advisor to terminate their respective agreements upon 30 days' written notice to the Company.

CNL Capital Markets LLC — CNL Capital Markets LLC, an affiliate of CNL, receives a sliding flat annual rate (payable monthly) based on the average number of investor accounts that will be open over the term of the agreement. For each of the years ended December 31, 2019, 2018 and 2017, the Company incurred approximately \$0.9 million in such fees. These amounts are included in general and administrative expenses in the accompanying consolidated statements of operations.

Co-venture partners —The Company incurs operating expenses which, in general, relate to administration of the Company and its subsidiaries on an ongoing basis.

The expenses and fees incurred by and reimbursable to the Company's related parties, including amounts included in the loss from discontinued operations for the years ended December 31, 2019, 2018 and 2017, and related amounts unpaid as of December 31, 2019 and 2018 are as follows (in thousands):

	Years Ended December 31,			Unpaid amounts ⁽¹⁾ as of December 31,	
	2019	2018	2017	2019	2018
Reimbursable expenses:					
Operating expenses ⁽²⁾	\$ 5,066	\$ 6,203	\$ 5,791	\$ 698	\$ 722
Acquisition fees and expenses	—	—	6	—	—
	5,066	6,203	5,797	698	722
Investment services fees ⁽³⁾	—	60	126	—	—
Disposition fee ⁽⁴⁾	3,031	58	—	—	—
Financing coordination fees ⁽⁵⁾	5,553	2,326	3,601	—	—
Property management fees ⁽⁶⁾	—	2,323	4,807	—	—
Asset management fees ⁽⁷⁾	23,281	30,385	30,157	1,577	2,533
	<u>\$ 36,931</u>	<u>\$ 41,355</u>	<u>\$ 44,488</u>	<u>\$ 2,275</u>	<u>\$ 3,255</u>

FOOTNOTES:

(1) Amounts are recorded as due to related parties in the accompanying consolidated balance sheets.

(2) Amounts are recorded as general and administrative expenses in the accompanying consolidated statements of operations unless such amounts represent prepaid expenses, which are capitalized in the accompanying consolidated balance sheets.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

11. Related Party Arrangements (continued)

- (3) For the year ended December 31, 2018, the Company incurred approximately \$0.1 million in investment services fees of which approximately \$0.1 million, was capitalized and included in real estate assets, net in the accompanying consolidated balance sheets. For the year ended December 31, 2017, the Company incurred approximately \$0.1 million in investment service fees of which approximately \$0.1 million was capitalized and included in real estate under development. There were no investment service fees incurred for the year end December 31, 2019. Investment service fees, that are not capitalized, are recorded as acquisition fees and expenses in the accompanying consolidated statements of operations.
- (4) Amounts are recorded as a reduction to gain on sale of real estate in the accompanying consolidated statements of operations.
- (5) For the year ended December 31, 2019, the Company incurred approximately \$5.6 million in financing coordination fees related to the refinancing of the loans associated with certain operating properties of which approximately \$3.7 million were capitalized as loan costs and reduced mortgages and other notes payable, net in the accompanying consolidated balance sheets. For the year ended December 31, 2018, the Company incurred approximately \$2.3 million in financing coordination fees related to the refinancing of the loans associated with certain operating properties. For the year ended December 31, 2017, the Company incurred approximately \$3.6 million in financing coordination fees related to the refinancing of the loans associated with certain operating properties of which approximately \$0.9 million in financing coordination fees were capitalized as loan costs and reduced mortgages and other notes payable, net in the accompanying consolidated balance sheets.
- (6) For the years ended December 31, 2018 and 2017, the Company incurred approximately \$2.3 million and \$4.8 million, respectively, in property and construction management fees payable to the Property Manager of which approximately \$5,000 and \$0.3 million, respectively, in construction management fees were capitalized and included in real estate under development in the accompanying consolidated balance sheets. The Property Management Agreement was not renewed beyond its expiration date of June 2018.
- (7) For the years ended December 31, 2019, 2018 and 2017, the Company incurred approximately \$23.3 million, \$30.4 million and \$30.2 million, respectively, in asset management fees payable to the Advisor. No expense support was received for the years ended December 31, 2019, 2018 and 2017. There was approximately \$11,000 and \$0.5 million in asset management fees that were capitalized and included in real estate under development in the accompanying consolidated balance sheets for the years ended December 31, 2018 and 2017, respectively. There were no asset management fees capitalized for the year ended December 31, 2019.

No amounts were settled or paid in the form of Restricted Stock in accordance with the expense support agreements for the years ended December 31, 2019, 2018 and 2017. As of December 31, 2019, \$13.57 million of asset management fees had been settled in exchange for 1.332 million shares of Restricted Stock. The number of Restricted Stock shares granted to the Advisor in lieu of payment in cash was determined by dividing the expense support amount for the respective determination date by the then-current NAV per share. At grant date, no fair value was assigned to the Restricted Stock shares as the shares were valued at zero, which represented the lowest possible value estimated at vesting. In addition, the Restricted Stock shares were treated as unissued for financial reporting purposes because the vesting criteria had not been met as of December 31, 2019.

Cash distributions paid on Restricted Stock shares for the years ended December 31, 2019, 2018 and 2017 were \$3.027 million, \$0.630 million and \$0.571 million, respectively. The cash distributions on Restricted Stock shares were recognized as compensation expense as declared and included in general and administrative expense in the accompanying consolidated statements of operations.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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12. Derivative Financial Instruments

The following summarizes the terms of the Company's, or its equity method investment's, derivative financial instruments and the corresponding asset (liability) as of December 31, 2019 and 2018 (in thousands):

Notional Amount	Strike ⁽¹⁾	Credit Spread ⁽¹⁾	Trade date	Forward date	Maturity date	Fair value asset (liability) as of	
						December 31, 2019	December 31, 2018
\$ — ⁽²⁾⁽³⁾	2.3%	2.4 %	9/12/2014	8/1/2015	7/15/2019	\$ —	\$ 168
\$ — ⁽²⁾	1.6%	2.0 %	12/23/2014	12/19/2014	2/19/2019	\$ —	\$ 220
\$ — ⁽²⁾⁽³⁾	1.7%	2.0 %	1/9/2015	12/10/2015	12/22/2019	\$ —	\$ 966
\$ — ⁽⁴⁾	2.3%	— %	8/29/2017	8/29/2017	9/1/2019	\$ —	\$ 247
\$ 223,000 ⁽³⁾⁽⁴⁾	3.0%	— %	3/28/2018	11/30/2018	12/19/2019	\$ —	\$ 44
\$ — ⁽³⁾⁽⁴⁾	3.0%	— %	3/28/2018	7/10/2018	12/19/2019	\$ —	\$ 6
\$ — ⁽³⁾⁽⁴⁾	3.0%	— %	3/28/2018	2/19/2019	12/19/2019	\$ —	\$ 19
\$ — ⁽³⁾⁽⁴⁾	3.0%	— %	5/4/2018	5/4/2018	12/19/2019	\$ —	\$ 6
\$ 10,500 ⁽⁴⁾	3.3%	— %	2/28/2019	3/1/2019	9/1/2021	\$ —	\$ —
\$ 50,000 ⁽⁴⁾	2.3%	— %	8/16/2019	9/1/2019	12/31/2020	\$ —	\$ —
\$ 231,000 ⁽⁴⁾	2.0%	— %	12/12/2019	12/20/2019	12/31/2020	\$ 2	\$ —

The following summarizes the gross and net presentation of amounts related to the Company's, or its equity method investment's, derivative financial instruments as of December 31, 2019 and 2018 (in thousands):

Notional amount	Gross and net amounts of asset (liability) as of December 31, 2019			Gross amounts as of December 31, 2019		
	Gross amount	Offset amount	Net amount	Financial Instruments	Cash Collateral	Net Amount
\$ 223,000 ⁽³⁾	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
\$ 10,500 ⁽⁴⁾	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
\$ 50,000 ⁽⁴⁾	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
\$ 231,000 ⁽⁴⁾	\$ 2	\$ —	\$ 2	\$ 2	\$ —	\$ 2

Notional amount	Gross and net amounts of asset (liability) as of December 31, 2018			Gross amounts as of December 31, 2018		
	Gross amount	Offset amount	Net amount	Financial Instruments	Cash Collateral	Net Amount
\$ 79,201 ⁽²⁾	\$ 168	\$ —	\$ 168	\$ 168	\$ —	\$ 168
\$ 175,000 ⁽²⁾	\$ 220	\$ —	\$ 220	\$ 220	\$ —	\$ 220
\$ 125,087 ⁽²⁾	\$ 966	\$ —	\$ 966	\$ 966	\$ —	\$ 966
\$ 117,000 ⁽⁴⁾	\$ 247	\$ —	\$ 247	\$ 247	\$ —	\$ 247
\$ 410,000 ⁽⁴⁾	\$ 44	\$ —	\$ 44	\$ 44	\$ —	\$ 44
\$ 51,575 ⁽⁴⁾	\$ 6	\$ —	\$ 6	\$ 6	\$ —	\$ 6
\$ 175,000 ⁽⁴⁾	\$ 19	\$ —	\$ 19	\$ 19	\$ —	\$ 19
\$ 57,630 ⁽⁴⁾	\$ 6	\$ —	\$ 6	\$ 6	\$ —	\$ 6

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

12. Derivative Financial Instruments (continued)

FOOTNOTES:

- (1) The all-in rates are equal to the sum of the Strike and Credit Spread detailed above.
- (2) Amounts related to interest rate swaps held by the Company which are recorded at fair value and included in either other assets or other liabilities in the accompanying condensed consolidated balance sheets.
- (3) All or a portion of these derivative financial instruments were settled in connection with the pay down of the respective loan balances.
- (4) Amounts related to the interest rate caps held by the Company, or its equity method investment, which are recorded at fair value and included in other assets in the accompanying consolidated balance sheets.

Although the Company has determined that the majority of the inputs used to value its derivative financial instruments fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by the Company and its counterparties. The Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative financial instruments and has determined that the credit valuation adjustments on the overall valuation adjustments are not significant to the overall valuation of its derivative financial instruments. As a result, the Company determined that its derivative financial instruments valuation in its entirety is classified in Level 2 of the fair value hierarchy. Determining fair value requires management to make certain estimates and judgments. Changes in assumptions could have a positive or negative impact on the estimated fair values of such instruments which could, in turn, impact the Company's or its joint venture's results of operations.

13. Equity

Redeemable Noncontrolling Interest:

In connection with the Watercrest at Katy joint venture, the Company's joint venture partner acquired a 5% noncontrolling interest that includes a put option of its membership to the Company commencing in July 2016, when the Watercrest at Katy development opened to residents, and concluding in July 2021 when NOI is: (a) equal to or greater than the NOI threshold established in the joint venture agreement, and (b) has been equal to or greater than the NOI threshold established in the joint venture agreement for the three calendar months immediately preceding the calendar month during which the joint venture partner exercises the put option. The put option is redeemable for cash at a price equal to the appraised market value (less certain transaction-related costs) at the time the put option is exercised ("Put Price"). The Company's maximum redemption exposure, as a result of these redeemable equity securities, is limited to the Put Price multiplied by the joint venture partner's 5% membership interest.

Stockholders' Equity:

Distribution Reinvestment Plan — In July 2018, in light of the Company's decision to proceed with the exploration of Possible Strategic Alternatives, the Company suspended the Reinvestment Plan and the Redemption Plan. As a result of the suspension of the Reinvestment Plan in July 2018, the Company did not receive any proceeds through its Reinvestment Plan subsequent to June 2018. For the years ended December 31, 2018 and 2017, the Company received proceeds through its Reinvestment Plan of approximately \$22.0 million and \$43.2 million, respectively.

Distributions — For the years ended December 31, 2019, 2018 and 2017, the Company declared cash distributions of \$394.9 million, \$81.1 million and \$77.7 million, respectively, which included a special cash distribution of \$347.9 million funded in May 2019 with proceeds from the sale of real estate and all of which were paid in cash to stockholders.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
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13. Equity (continued)

The tax composition of the Company's distributions declared for the years ended December 31, 2019, 2018 and 2017 were as follows:

	Years Ended December 31,		
	2019	2018	2017
Ordinary income	0.0%	0.0%	0.0%
Capital gain	42.85%	0.0%	0.0%
Unrecaptured Sec. 1250 gain	20.10%	0.0%	0.0%
Return of capital	37.05%	100.0%	100.0%

Redemptions — In July 2018, in light of the Company's decision to proceed with the exploration of Possible Strategic Alternatives, the Company suspended the Reinvestment Plan and the Redemption Plan. No requests for redemptions have been accepted subsequent to suspension of the Redemption Plan. As such, there were no requests for the redemption of common stock during the year ended December 31, 2019. For the years ended December 31, 2018 and 2017, the Company received requests for the redemption of common stock under its Redemption Plan of approximately 4.4 million and 4.7 million shares, respectively, of which, 2.8 million and 4.7 million were approved for redemption at an average price of \$10.14 and \$9.99, respectively, and for a total of approximately \$28.4 million and \$47.3 million, respectively.

During the year ended December 31, 2018, as a result of the Redemption Plan being suspended, approximately \$16.4 million in unsatisfied redemption requests were placed in a redemption queue and will remain there until such time, if at all, that the Company's board of directors reinstates the Redemption Plan. Unless the Redemption Plan is reinstated by the Company's board of directors, the Company will not as a general matter, accept or otherwise process any additional redemption requests received after July 11, 2018. There can be no guarantee that the Redemption Plan will be reinstated by the Company's board of directors.

Promoted Interest — In connection with the Company's promoted interest agreements, certain operating targets have been established which, upon meeting such targets, result in the developer being entitled to additional payments based on enumerated percentages of the assumed net proceeds of a deemed sale, subject to achievement of an established internal rate of return on the Company's investment in the development. For the years ended December 31, 2019, 2018 and 2017, the Company accrued, as a (reduction)/reversal to capital in excess of par value, the following distributions to holders of promoted interest (in thousands):

	Years Ended December 31,		
	2019	2018	2017
HarborChase of Villages Crossing	\$ —	\$ (406)	\$ (955)
Dogwood Forest of Grayson	406	(406)	—
	\$ 406	\$ (406)	\$ (955)

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
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YEAR ENDED DECEMBER 31, 2019

13. Equity (continued)

Other comprehensive income (loss) — The following table reflects the effect of derivative financial instruments held by the Company, or its equity method investment, and included in the consolidated statements of comprehensive income (loss) for the years ended December 31, 2019, 2018 and 2017 (in thousands):

Derivative financial instruments	Gain (loss) recognized in other comprehensive loss on derivative financial instruments			Location of gain (loss) reclassified into earnings	Gain (loss) reclassified from accumulated other comprehensive income (loss) into earnings		
	Years Ended December 31,				Years Ended December 31,		
	2019	2018	2017		2019	2018	2017
Interest rate swaps	\$ (846)	\$ 1,219	\$ 5,573	Interest expense and loan cost amortization	\$ 921	\$ 2,457	\$ (3,902)
Interest rate caps	(134)	690	1,013	Interest expense and loan cost amortization	(361)	(1,957)	(849)
Reclassification of interest rate swaps upon derecognition	(509)	253	318	Interest expense and loan cost amortization	509	(253)	(318)
Reclassification of interest rate caps upon derecognition	265	—	(26)	Interest expense and loan cost amortization	(265)	—	26
Interest rate cap held by unconsolidated joint venture	11	—	—	Not applicable	(11)	—	—
Total	<u>\$ (1,213)</u>	<u>\$ 2,162</u>	<u>\$ 6,878</u>		<u>\$ 793</u>	<u>\$ 247</u>	<u>\$ (5,043)</u>

14. Income Taxes

For the years ended December 31, 2019, 2018 and 2017, the Company recorded net current tax expense and deferred tax assets related to deferred income at its TRS entities. The components of the income tax (expense) benefit for the years ended December 31, 2019, 2018 and 2017 were as follows (in thousands):

	Years Ended December 31,		
	2019	2018	2017
Current:			
Federal	\$ 51	\$ 113	\$ (245)
State	(558)	(477)	(448)
Total current expense	<u>(507)</u>	<u>(364)</u>	<u>(693)</u>
Deferred:			
Federal	(1,562)	(3,333)	8,826
State	(120)	66	305
Total deferred benefit	<u>(1,682)</u>	<u>(3,267)</u>	<u>9,131</u>
Income tax (expense) benefit	<u>\$ (2,189)</u>	<u>\$ (3,631)</u>	<u>\$ 8,438</u>

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

14. Income Taxes (continued)

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets as of December 31, 2019 and 2018 are as follows:

	2019	2018
Carryforwards of net operating loss	\$ 3,653	\$ 6,046
Minimum tax credit carryforward	59	118
Prepaid rent	1,648	712
Valuation allowance	(1,096)	(946)
Deferred tax assets, net	\$ 4,264	\$ 5,930

A reconciliation of the income tax (expense) benefit computed at the statutory federal tax rate on income before income taxes is as follows (in thousands):

	Years Ended December 31,					
	2019		2018		2017	
Tax (expense) benefit computed at federal statutory rate	\$ (136)	(21.00) %	\$ 3,593	21.00 %	\$ 9,442	35.00 %
Impact of REIT election	(1,437)	(221.44) %	(6,922)	(40.45)%	(10,650)	(39.48)%
State income tax expense net of federal benefit	(466)	(71.76)%	(399)	(2.33)%	(331)	(1.23)%
Effect of change in future tax rates	—	—%	—	—%	1,861	6.90 %
Effect of change in valuation allowance	(150)	(23.11) %	97	0.57 %	8,116	30.09 %
Income tax (expense) benefit	\$ (2,189)	(337.31) %	\$ (3,631)	(21.21) %	\$ 8,438	31.28 %

The Company's TRS entities had net operating loss carryforwards for federal and state purposes of approximately \$12.3 million and \$23.3 million as of December 31, 2019 and 2018, respectively, to offset future taxable income. If not utilized, the federal net operating loss carryforwards will begin to expire in 2035, and the state net operating loss carryforwards will begin to expire in 2020. The Company analyzed its material tax positions and determined that it has not taken any uncertain tax positions. The tax years 2016 and forward remain subject to examination by taxing authorities. In December 2017, the Tax Act was signed into law and reduces the U.S. federal corporate tax rate to 21%, effective January 1, 2018. All material impacts of the Tax Act have been reflected in the financial statements and their footnotes.

15. Commitments and Contingencies

From time to time, the Company may be a party to legal proceedings in the ordinary course of, or incidental to the normal course of, its business, including proceedings to enforce its contractual or statutory rights. While the Company cannot predict the outcome of these legal proceedings with certainty, based upon currently available information, the Company does not believe the final outcome of any pending or threatened legal proceeding will have a material adverse effect on its results of operations or financial condition.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

15. Commitments and Contingencies (continued)

As a result of the Company's completed seniors housing developments continuing to move towards or achieving stabilization, the Company monitors the lease-up of these properties to determine whether the established performance metrics have been met as of each reporting period. The Company has six remaining promoted interest agreements with third-party developers pursuant to which certain operating targets have been established that, upon meeting such targets, result in the developer being entitled to additional payments based on enumerated percentages of the assumed net proceeds of a deemed sale, subject to achievement of an established internal rate of return on the Company's investment in the development. As of December 31, 2019, one property had met its established performance metrics, but no promoted interest obligation was currently owed pursuant to the distribution calculation; whereas for the remaining five promoted interest agreements, the established performance metrics were not met nor probable of being met as of December 31, 2019.

The Company's Advisor has approximately 1.3 million contingently issuable Restricted Stock shares for financial reporting purposes that were issued pursuant to the Advisor expense support agreement. Refer to Note 11. "Related Party Arrangements" for information on distributions declared related to these Restricted Stock shares.

16. Concentration of Credit Risk

For the years ended December 31, 2019, 2018 and 2017, the Company had a geographical concentration accounting for 10% or more of its total revenues, excluding the 63 properties classified as discontinued operations, as follows:

	<u>Type of Concentration</u>	<u>Years Ended December 31,</u>		
		<u>2019</u>	<u>2018</u>	<u>2017</u>
State of Texas ⁽¹⁾	Geographical	20.8%	20.6%	20.8%

FOOTNOTE:

⁽¹⁾ Includes rental income and related revenues and resident fees and services. Adverse economic developments in this geographical area could significantly impact the Company's results of operations and cash flows from operations, which in turn would impact its ability to pay debt service and make distributions to stockholders.

17. Selected Quarterly Financial Data (Unaudited)

The following table presents selected unaudited quarterly financial data for the years ended December 31, 2019 and 2018 (in thousands, except per share data):

2019 Quarters	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>	<u>Full Year</u>
Total revenues	\$ 80,198	\$ 80,147	\$ 80,202	\$ 81,344	\$ 321,891
Operating income	10,829	6,358	11,054	9,550	37,791
Income (loss) from continuing operations	(566)	(4,843)	1,591	2,277	(1,541)
Income from discontinued operations	10,474	333,370	3,877	5,616	353,337
Net income attributable to common stockholders	9,900	328,272	5,454	7,870	351,496
Net (loss) income per share of common stock (basic and diluted)					
Continuing operations	(0.00)	(0.03)	0.01	0.01	(0.01)
Discontinued operations	0.06	1.92	0.02	0.03	2.03
Weighted average number of shares outstanding (basic and diluted)	173,963	173,963	173,963	173,963	173,963

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

17. Selected Quarterly Financial Data (Unaudited) (continued)

2018 Quarters	First	Second	Third	Fourth	Full Year
Total revenues	\$ 76,319	\$ 77,189	\$ 78,471	\$ 79,615	\$ 311,594
Operating income	5,176	8,597	10,098	118	23,989
Loss from continuing operations	(5,720)	(2,700)	(635)	(11,687)	(20,742)
(Loss) income from discontinued operations	(2,178)	(4,634)	(2,634)	5,037	(4,409)
Net loss attributable to common stockholders	(7,874)	(7,308)	(3,248)	(6,642)	(25,072)
Net (loss) income per share of common stock (basic and diluted)					
Continuing operations	(0.03)	(0.02)	(0.00)	(0.07)	(0.12)
Discontinued operations	(0.01)	(0.03)	(0.02)	0.03	(0.03)
Weighted average number of shares outstanding (basic and diluted)	174,854	174,201	173,974	173,973	174,247

18. Subsequent Events

In February 2020, the Company sold its acute care property in New Orleans in accordance with the terms of the New Orleans Sale Agreement. The net sales proceeds approximated the net carrying value of the property. The Company also repaid the Primrose II Communities outstanding mortgage loan balance of approximately \$20.5 million, which was scheduled to mature in June 2020.

In March 2020, the Company sold its six skilled nursing facilities in accordance with the Perennial Communities Sale Agreement. The net sales proceeds exceeded the net carrying value of the property.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (“COVID-19”) as a pandemic, which continues to spread throughout the United States. The ultimate extent of the impact of COVID-19 on the financial performance of the Company will depend on future developments, including the duration and spread of COVID-19, and the overall economy, all of which are highly uncertain and cannot be predicted. If the financial markets and/or the overall economy are impacted for an extended period, the Company's operating results may be materially and adversely affected.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017 (in thousands)

<u>Year</u>	<u>Description</u>	<u>Balance at Beginning of Year</u>	<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts</u>	<u>Balance at End of Year</u>
2017	Deferred tax asset valuation allowance	\$ (9,552)	\$ 8,465	\$ —	\$ (1,087)
	Allowance for doubtful accounts	(1,516)	(834)	—	(2,350)
		<u>\$ (11,068)</u>	<u>\$ 7,631</u>	<u>\$ —</u>	<u>\$ (3,437)</u>
2018	Deferred tax asset valuation allowance	\$ (1,087)	\$ (829)	\$ —	\$ (1,916)
	Allowance for doubtful accounts	(2,350)	(1,489)	—	(3,839)
		<u>\$ (3,437)</u>	<u>\$ (2,318)</u>	<u>\$ —</u>	<u>\$ (5,755)</u>
2019	Deferred tax asset valuation allowance	\$ (1,916)	\$ —	\$ 808	\$ (1,108)
	Allowance for doubtful account	(3,839)	—	1,912	(1,927)
		<u>\$ (5,755)</u>	<u>\$ —</u>	<u>\$ 2,720</u>	<u>\$ (3,035)</u>

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 2019 (in thousands)

Property/Location	Initial Costs				Costs Capitalized Subsequent to Acquisition				Gross Amounts at which Carried at Close of Period ⁽²⁾				Date Acquired	Life on which depreciation in latest income statement is computed
	Encumbrances	Land & Land Improvements	Building and Building Improvements	Land & Land Improvements	Land & Land Improvements	Building and Building Improvements	Construction in Process	Land & Land Improvements	Building and Building Improvements	Construction in Process	Total	Accumulated Depreciation		
Primrose Retirement Community of Casper Casper, Wyoming	\$ 10,993	\$ 1,910	\$ 16,310	\$ 30	\$ 296	\$ —	\$ 1,940	\$ 16,606	\$ —	\$ 18,546	\$ (3,457)	2004	2/16/2012	(1)
Primrose Retirement Community of Grand Island Grand Island, Nebraska	\$ 7,755	\$ 719	\$ 12,140	\$ 56	\$ —	\$ —	\$ 775	\$ 12,140	\$ —	\$ 12,915	\$ (2,634)	2005	2/16/2012	(1)
Primrose Retirement Community of Mansfield Mansfield, Ohio	\$ 10,551	\$ 650	\$ 16,720	\$ 229	\$ 71	\$ —	\$ 879	\$ 16,791	\$ —	\$ 17,670	\$ (3,657)	2007	2/16/2012	(1)
Primrose Retirement Community of Marion Marion, Ohio	\$ 8,752	\$ 889	\$ 16,305	\$ —	\$ —	\$ —	\$ 889	\$ 16,305	\$ —	\$ 17,194	\$ (3,485)	2006	2/16/2012	(1)
Sweetwater Retirement Community Billings, Montana	\$ 9,506	\$ 1,578	\$ 14,205	\$ 19	\$ —	\$ —	\$ 1,597	\$ 14,205	\$ —	\$ 15,802	\$ (2,961)	2006	2/16/2012	(1)
HarborChase of Villages Crossing Lady Lake, Florida ("The Villages")	\$ —	\$ 2,165	\$ —	\$ 996	\$ 15,429	\$ —	\$ 3,161	\$ 15,429	\$ —	\$ 18,590	\$ (2,529)	2013	8/29/2012	(1)
Primrose Retirement Community Cottages Aberdeen, South Dakota	\$ —	\$ 311	\$ 3,794	\$ —	\$ —	\$ —	\$ 311	\$ 3,794	\$ —	\$ 4,105	\$ (737)	2005	12/19/2012	(1)
Primrose Retirement Community of Council Bluffs Council Bluffs, Iowa ("Ornaha")	\$ —	\$ 1,144	\$ 11,117	\$ 5	\$ —	\$ —	\$ 1,149	\$ 11,117	\$ —	\$ 12,266	\$ (2,220)	2008	12/19/2012	(1)
Primrose Retirement Community of Decatur Decatur, Illinois	\$ 9,646	\$ 513	\$ 16,706	\$ —	\$ 154	\$ —	\$ 513	\$ 16,860	\$ —	\$ 17,373	\$ (3,214)	2009	12/19/2012	(1)
Primrose Retirement Community of Lima Lima, Ohio	\$ —	\$ 944	\$ 17,115	\$ 8	\$ 4	\$ —	\$ 952	\$ 17,119	\$ —	\$ 18,071	\$ (3,262)	2006	12/19/2012	(1)
Primrose Retirement Community of Zanesville Zanesville, Ohio	\$ 10,887	\$ 1,184	\$ 17,292	\$ —	\$ 67	\$ —	\$ 1,184	\$ 17,359	\$ —	\$ 18,543	\$ (3,312)	2008	12/19/2012	(1)
Capital Health of Symphony Manor Baltimore, Maryland	\$ 13,575	\$ 2,319	\$ 19,444	\$ —	\$ 160	\$ —	\$ 2,319	\$ 19,604	\$ —	\$ 21,923	\$ (3,666)	2011	12/21/2012	(1)
Curry House Assisted Living & Memory Care Caddillac, Michigan	\$ 7,127	\$ 995	\$ 11,072	\$ 9	\$ 2	\$ —	\$ 1,004	\$ 11,074	\$ —	\$ 12,078	\$ (2,106)	1966	12/21/2012	(1)
Tranquility at Fredericktowne Frederick, Maryland	\$ 19,565	\$ 808	\$ 14,291	\$ —	\$ 6,086	\$ —	\$ 808	\$ 20,377	\$ —	\$ 21,185	\$ (3,485)	2000	12/21/2012	(1)
Brookridge Heights Assisted Living & Memory Care Marquette, Michigan	\$ 12,004	\$ 595	\$ 11,339	\$ (17)	\$ 4,762	\$ —	\$ 578	\$ 16,101	\$ —	\$ 16,679	\$ (2,904)	1998	12/21/2012	(1)
Woodholme Gardens Assisted Living & Memory Care Pikesville, Maryland ("Baltimore")	\$ 6,116	\$ 1,603	\$ 13,472	\$ 54	\$ 8	\$ —	\$ 1,657	\$ 13,480	\$ —	\$ 15,137	\$ (2,563)	2010	12/21/2012	(1)
Batesville Healthcare Center Batesville, Arkansas	\$ —	\$ 397	\$ 5,382	\$ 113	\$ —	\$ —	\$ 510	\$ 5,382	\$ —	\$ 5,892	\$ (598)	1975	5/31/2013	(1)

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 2019 (in thousands)

Property/Location	Initial Costs					Costs Capitalized Subsequent to Acquisition					Gross Amounts at which Carried at Close of Period ⁽²⁾					Date of Construction	Date Acquired	Life on which depreciation in latest income statement is computed
	Encumbrances	Land & Land Improvements	Building and Building Improvements	Land & Land Improvements	Building and Building Improvements	Construction in Process	Land & Land Improvements	Building and Building Improvements	Construction in Process	Total	Accumulated Depreciation							
Broadway Healthcare Center West Memphis, Arkansas	\$ —	\$ 438	\$ 10,560	\$ —	\$ 77	\$ —	\$ 438	\$ 10,637	\$ —	\$ 11,075	\$ (1,189)	1994	5/31/2013	(1)				
Jonesboro Healthcare Center Jonesboro, Arkansas	\$ —	\$ 527	\$ 13,493	\$ —	\$ 5	\$ —	\$ 527	\$ 13,498	\$ —	\$ 14,025	\$ (1,494)	2012	5/31/2013	(1)				
Magnolia Healthcare Center Magnolia, Arkansas	\$ —	\$ 421	\$ 10,454	\$ —	\$ —	\$ —	\$ 421	\$ 10,454	\$ —	\$ 10,875	\$ (1,177)	2009	5/31/2013	(1)				
Mine Creek Healthcare Center Nashville, Arkansas	\$ —	\$ 135	\$ 2,942	\$ 11	\$ 36	\$ —	\$ 146	\$ 2,978	\$ —	\$ 3,124	\$ (347)	1978	5/31/2013	(1)				
Searcy Healthcare Center Searcy, Arkansas	\$ —	\$ 648	\$ 6,017	\$ —	\$ 222	\$ —	\$ 648	\$ 6,239	\$ —	\$ 6,887	\$ (710)	1973	5/31/2013	(1)				
HarborChase of Jasper Jasper, Alabama	\$ —	\$ 355	\$ 6,358	\$ —	\$ 50	\$ —	\$ 355	\$ 6,408	\$ —	\$ 6,763	\$ (1,089)	1998	7/31/2013	(1)				
Doctor's Specialty Hospital Leawood, Kansas ("Kansas City")	\$ —	\$ 924	\$ 5,771	\$ 69	\$ —	\$ —	\$ 993	\$ 5,771	\$ —	\$ 6,764	\$ (842)	2001	8/16/2013	(1)				
Raider Ranch Lubbock, Texas	\$ —	\$ 4,992	\$ 48,818	\$ 499	\$ 12,627	\$ —	\$ 5,491	\$ 61,445	\$ —	\$ 66,936	\$ (9,562)	2009	8/29/2013	(1)				
Town Village Oklahoma City, Oklahoma	\$ —	\$ 1,020	\$ 19,847	\$ 87	\$ 1,319	\$ —	\$ 1,107	\$ 21,166	\$ —	\$ 22,273	\$ (3,562)	2004	8/29/2013	(1)				
Prestige Senior Living Beaverton Hills Beaverton, Oregon	\$ 8,469	\$ 1,387	\$ 10,324	\$ 6	\$ —	\$ —	\$ 1,393	\$ 10,324	\$ —	\$ 11,717	\$ (1,691)	2000	12/2/2013	(1)				
Prestige Senior Living High Desert Bend, Oregon	\$ 7,416	\$ 835	\$ 11,252	\$ 17	\$ 48	\$ —	\$ 852	\$ 11,300	\$ —	\$ 12,152	\$ (1,921)	2003	12/2/2013	(1)				
MorningStar of Billings Billings, Montana	\$ 18,566	\$ 4,067	\$ 41,373	\$ 51	\$ 186	\$ —	\$ 4,118	\$ 41,559	\$ —	\$ 45,677	\$ (7,156)	2009	12/2/2013	(1)				
MorningStar of Boise Boise, Idaho	\$ 19,896	\$ 1,663	\$ 35,752	\$ 18	\$ 234	\$ —	\$ 1,681	\$ 35,986	\$ —	\$ 37,667	\$ (5,840)	2007	12/2/2013	(1)				
Prestige Senior Living Huntington Terrace Gresham, Oregon ("Portland")	\$ 9,504	\$ 1,236	\$ 12,083	\$ 2	\$ 64	\$ —	\$ 1,238	\$ 12,147	\$ —	\$ 13,385	\$ (2,018)	2000	12/2/2013	(1)				
MorningStar of Idaho Falls Idaho Falls, Idaho	\$ 16,562	\$ 2,006	\$ 40,397	\$ 5	\$ 232	\$ —	\$ 2,011	\$ 40,629	\$ —	\$ 42,640	\$ (6,736)	2009	12/2/2013	(1)				
Prestige Senior Living Arbor Place Medford, Oregon	\$ 7,817	\$ 355	\$ 14,083	\$ 6	\$ 34	\$ —	\$ 361	\$ 14,117	\$ —	\$ 14,478	\$ (2,286)	2003	12/2/2013	(1)				

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 2019 (in thousands)

Property/Location	Initial Costs		Costs Capitalized Subsequent to Acquisition				Gross Amounts at which Carried at Close of Period ⁽²⁾				Date of Construction	Date Acquired	Life on which depreciation in latest income statement is computed	
	Encumbrances	Land & Building Improvements	Land & Building Improvements	Land & Building Improvements	Construction in Process	Land & Building Improvements	Construction in Process	Accumulated Depreciation	Total					
Prestige Senior Living Orchard Hills Salem, Oregon	\$ 11,396	\$ 545	\$ 15,544	\$ 8	\$ 183	\$ —	\$ 553	\$ 15,727	\$ —	\$ 16,280	\$ (2,521)	2002	12/22/2013	(1)
Prestige Senior Living Southern Hills Salem, Oregon	\$ 7,114	\$ 653	\$ 10,753	\$ 43	\$ 8	\$ —	\$ 696	\$ 10,761	\$ —	\$ 11,457	\$ (1,775)	2001	12/22/2013	(1)
MorningStar of Sparks Sparks, Nevada	\$ 22,034	\$ 3,986	\$ 47,968	\$ 16	\$ 43	\$ —	\$ 4,002	\$ 48,011	\$ —	\$ 52,013	\$ (8,037)	2009	12/22/2013	(1)
Prestige Senior Living Five Rivers Tillamook, Oregon	\$ 7,293	\$ 1,298	\$ 14,064	\$ 18	\$ 110	\$ —	\$ 1,316	\$ 14,174	\$ —	\$ 15,490	\$ (2,456)	2002	12/22/2013	(1)
Prestige Senior Living Riverwood Tuatkin, Oregon ("Portland")	\$ 4,308	\$ 1,028	\$ 7,429	\$ 12	\$ 85	\$ —	\$ 1,040	\$ 7,514	\$ —	\$ 8,554	\$ (1,276)	1999	12/22/2013	(1)
Prestige Senior Living Auburn Meadows Auburn, Washington ("Seattle")	\$ 9,942	\$ 2,537	\$ 17,261	\$ —	\$ 174	\$ —	\$ 2,537	\$ 17,435	\$ —	\$ 19,972	\$ (2,822)	2003/2010	2/3/2014	(1)
Prestige Senior Living Bridgewood Vancouver, Washington ("Portland")	\$ 12,518	\$ 1,603	\$ 18,172	\$ 10	\$ 35	\$ —	\$ 1,613	\$ 18,207	\$ —	\$ 19,820	\$ (2,919)	2001	2/3/2014	(1)
Prestige Senior Living Monticello Park Longview, Washington	\$ 16,689	\$ 1,981	\$ 23,056	\$ 1	\$ 20	\$ —	\$ 1,982	\$ 23,076	\$ —	\$ 25,058	\$ (3,654)	2001/2010	2/3/2014	(1)
Prestige Senior Living Rosemont Yelm, Washington	\$ 8,778	\$ 668	\$ 14,564	\$ —	\$ 46	\$ —	\$ 668	\$ 14,610	\$ —	\$ 15,278	\$ (2,286)	2004	2/3/2014	(1)
Wellmore of Tega Cay Tega Cay, South Carolina ("Charlotte")	\$ —	\$ 2,445	\$ —	\$ 2,743	\$ 23,451	\$ —	\$ 5,188	\$ 23,451	\$ —	\$ 28,639	\$ (3,528)	2015	2/7/2014	(1)
Isle at Cedar Ridge Cedar Park, Texas ("Austin")	\$ —	\$ 1,525	\$ 16,277	\$ —	\$ 189	\$ —	\$ 1,525	\$ 16,466	\$ —	\$ 17,991	\$ (2,693)	2011	2/28/2014	(1)
Prestige Senior Living West Hills Corvallis, Oregon	\$ 8,296	\$ 842	\$ 12,603	\$ 11	\$ 13	\$ —	\$ 853	\$ 12,616	\$ —	\$ 13,469	\$ (2,050)	2002	3/3/2014	(1)
HarborChase of Plainfield Plainfield, Illinois	\$ —	\$ 1,596	\$ 21,832	\$ —	\$ —	\$ —	\$ 1,596	\$ 21,832	\$ —	\$ 23,428	\$ (3,402)	2010	3/28/2014	(1)
Legacy Ranch Alzheimer's Special Care Center Midland, Texas	\$ —	\$ 917	\$ 9,982	\$ —	\$ 7	\$ —	\$ 917	\$ 9,989	\$ —	\$ 10,906	\$ (1,587)	2012	3/28/2014	(1)
The Springs Alzheimer's Special Care Center San Angelo, Texas	\$ —	\$ 595	\$ 9,658	\$ 9	\$ —	\$ —	\$ 604	\$ 9,658	\$ —	\$ 10,262	\$ (1,534)	2012	3/28/2014	(1)
Isle at Watercrest - Bryan Bryan, Texas	\$ —	\$ 3,223	\$ 40,581	\$ 36	\$ 972	\$ —	\$ 3,259	\$ 41,553	\$ —	\$ 44,812	\$ (6,601)	2011	4/21/2014	(1)
Isle at Watercrest - Mansfield Mansfield, Texas ("Dallas/Fort Worth")	\$ —	\$ 997	\$ 24,635	\$ —	\$ 51	\$ —	\$ 997	\$ 24,686	\$ —	\$ 25,683	\$ (3,712)	2011	5/5/2014	(1)
Watercrest at Katy Katy, Texas ("Houston")	\$ 21,274	\$ 4,000	\$ —	\$ 120	\$ 32,372	\$ —	\$ 4,120	\$ 32,372	\$ —	\$ 36,492	\$ (3,000)	2016	6/27/2014	(1)
Watercrest at Mansfield Mansfield, Texas ("Dallas/Fort Worth")	\$ 24,625	\$ 2,191	\$ 42,740	\$ 11	\$ 933	\$ —	\$ 2,202	\$ 43,673	\$ —	\$ 45,875	\$ (6,375)	2010	6/30/2014	(1)

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 2019 (in thousands)

Property/Location	Initial Costs				Costs Capitalized Subsequent to Acquisition				Gross Amounts at which Carried at Close of Period ⁽²⁾				Date Acquired	Life on which depreciation in latest income statement is computed	
	Encumbrances	Land & Land Improvements	Building and Building Improvements	Land & Land Improvements	Land & Land Improvements	Building and Building Improvements	Construction in Process	Land & Land Improvements	Building and Building Improvements	Construction in Process	Total	Accumulated Depreciation			Construction
HarborChase of Shorewood Shorewood, Wisconsin ("Milwaukee")	\$ —	\$ 2,200	\$ —	\$ 301	\$ 19,862	\$ —	\$ —	\$ 2,501	\$ 19,862	\$ —	\$ 22,363	\$ (2,159)	2015	7/8/2014	(1)
Hurst Specialty Hospital Hurst, Texas ("Dallas/Fort Worth")	\$ —	\$ 2,082	\$ 20,186	\$ —	\$ —	\$ —	\$ —	\$ 2,082	\$ 20,186	\$ —	\$ 22,268	\$ (2,708)	2004/2012	8/15/2014	(1)
Fairfield Village of Layton Layton, Utah ("Salt Lake City")	\$ —	\$ 5,217	\$ 54,167	\$ 66	\$ 49	\$ —	\$ —	\$ 5,283	\$ 54,216	\$ —	\$ 59,499	\$ (7,836)	2010	11/20/2014	(1)
Fieldstone Memory Care Yakima, Washington	\$ —	\$ 1,297	\$ 9,965	\$ —	\$ 6	\$ —	\$ —	\$ 1,297	\$ 9,971	\$ —	\$ 11,268	\$ (1,343)	2014	3/31/2015	(1)
Primrose Retirement Center of Anderson Anderson, Indiana ("Muncie")	\$ —	\$ 1,342	\$ 19,083	\$ —	\$ 33	\$ —	\$ —	\$ 1,342	\$ 19,116	\$ —	\$ 20,458	\$ (2,473)	2008	5/29/2015	(1)
Primrose Retirement Center of Lancaster Lancaster, Ohio ("Columbus")	\$ —	\$ 2,840	\$ 21,884	\$ —	\$ —	\$ —	\$ —	\$ 2,840	\$ 21,884	\$ —	\$ 24,724	\$ (3,117)	2007	5/29/2015	(1)
Primrose Retirement Center of Wausau Wausau, Wisconsin ("Green Bay")	\$ —	\$ 1,089	\$ 18,653	\$ —	\$ —	\$ —	\$ —	\$ 1,089	\$ 18,653	\$ —	\$ 19,742	\$ (2,318)	2008	5/29/2015	(1)
Superior Residences of Panama City Panama City Beach, Florida	\$ —	\$ 2,099	\$ 19,367	\$ 14	\$ 17	\$ —	\$ —	\$ 2,113	\$ 19,384	\$ —	\$ 21,497	\$ (2,456)	2015	7/15/2015	(1)
The Hampton at Meadows Place Fort Bend, Texas ("Houston")	\$ —	\$ 715	\$ 24,281	\$ —	\$ 283	\$ —	\$ —	\$ 715	\$ 24,564	\$ —	\$ 25,279	\$ (2,819)	2007/2013/2014	7/31/2015	(1)
The Pavilion at Great Hills Austin, Texas	\$ —	\$ 1,783	\$ 29,318	\$ 30	\$ 209	\$ —	\$ —	\$ 1,813	\$ 29,527	\$ —	\$ 31,340	\$ (3,431)	2010	7/31/2015	(1)
The Beacon at Gulf Breeze Gulf Breeze, Florida ("Pensacola")	\$ —	\$ 824	\$ 24,106	\$ 84	\$ 149	\$ —	\$ —	\$ 908	\$ 24,255	\$ —	\$ 25,163	\$ (2,910)	2008	7/31/2015	(1)
Parc at Piedmont Marietta, Georgia ("Atlanta")	\$ —	\$ 3,529	\$ 43,080	\$ 31	\$ 311	\$ —	\$ —	\$ 3,560	\$ 43,391	\$ —	\$ 46,951	\$ (5,202)	2001/2011	7/31/2015	(1)
Parc at Duluth Duluth, Georgia ("Atlanta")	\$ —	\$ 5,951	\$ 42,458	\$ 47	\$ 1,061	\$ —	\$ —	\$ 5,998	\$ 43,519	\$ —	\$ 49,517	\$ (5,467)	2003/2012	7/31/2015	(1)
Waterstone on Augusta Greenville, South Carolina	\$ —	\$ 2,253	\$ —	\$ 2,116	\$ 20,786	\$ —	\$ —	\$ 4,369	\$ 20,786	\$ —	\$ 25,155	\$ (1,845)	2017	8/31/2015	(1)
Wellmore of Lexington Lexington, South Carolina ("Columbia")	\$ —	\$ 2,300	\$ —	\$ 3,150	\$ 43,085	\$ —	\$ —	\$ 5,450	\$ 43,085	\$ —	\$ 48,535	\$ (3,286)	2017	9/14/2015	(1)
Palmilla Senior Living Albuquerque, New Mexico	\$ —	\$ 4,701	\$ 38,321	\$ —	\$ 65	\$ —	\$ —	\$ 4,701	\$ 38,386	\$ —	\$ 43,087	\$ (4,465)	2013	9/30/2015	(1)
Cedar Lake Assisted Living and Memory Care Lake Zurich, Illinois ("Chicago")	\$ —	\$ 2,412	\$ 25,126	\$ 6	\$ 9	\$ —	\$ —	\$ 2,418	\$ 25,135	\$ —	\$ 27,553	\$ (2,921)	2014	9/30/2015	(1)

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 2019 (in thousands)

Property/Location	Initial Costs		Costs Capitalized Subsequent to Acquisition				Gross Amounts at which Carried at Close of Period ⁽²⁾				Date Acquired	Life on which depreciation in latest income statement is computed		
	Land Improvements	Building and Building Improvements	Land & Land Improvements	Building and Building Improvements	Construction in Process	Land & Land Improvements	Building and Building Improvements	Construction in Process	Total	Accumulated Depreciation				
Fieldsone at Pear Orchard Yakima Washington	\$ 8,282	\$ 1,035	\$ —	\$ 102	\$ 13,499	\$ —	\$ 1,137	\$ 13,499	\$ —	\$ 14,636	\$ (1,088)	2016	10/12/2015	(1)
The Shores of Lake Phalen Maplewood, Minnesota ("St. Paul")	\$ —	\$ 2,724	\$ 25,093	\$ 10	\$ 90	\$ —	\$ 2,734	\$ 25,183	\$ —	\$ 27,917	\$ (2,845)	2012	11/10/2015	(1)
Dogwood Forrest of Grayson Grayson, Georgia	\$ —	\$ 1,788	\$ —	\$ 109	\$ 22,051	\$ —	\$ 1,897	\$ 22,051	\$ —	\$ 23,948	\$ (1,471)	2017	11/24/2015	(1)
Park Place Senior Living at WingHaven O'Fallon, Missouri ("St. Louis")	\$ —	\$ 1,283	\$ 48,221	\$ 113	\$ 763	\$ —	\$ 1,396	\$ 48,984	\$ —	\$ 50,380	\$ (5,183)	2006/2014	12/17/2015	(1)
Hearthside Senior Living of Collierville Collierville, Tennessee ("Memphis")	\$ —	\$ 1,756	\$ 13,379	\$ 7	\$ 28	\$ —	\$ 1,763	\$ 13,407	\$ —	\$ 15,170	\$ (1,498)	2014	12/29/2015	(1)
Cobalt Rehabilitation Hospital New Orleans New Orleans, Louisiana	\$ —	\$ 3,283	\$ 20,142	\$ 5	\$ 5	\$ —	\$ 3,288	\$ 20,147	\$ —	\$ 23,435	\$ (1,050)	2016	10/19/2016	(1)
Isle at Watercrest - Mansfield Mansfield, Texas ("Dallas/Fort Worth")	\$ —	\$ 1,056	\$ —	\$ —	\$ —	\$ —	\$ 1,056	\$ —	\$ —	\$ 1,056	\$ —	—	9/7/2017	(1)
	\$ 377,256	\$ 127,922	\$ 1,350,177	\$ 11,502	\$ 223,226	\$ —	\$ 139,424	\$ 1,573,403	\$ —	\$ 1,712,827	\$ (226,529)			

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 2019 (in thousands)

Transactions in real estate and accumulated depreciation as of December 31, 2019 are as follows:

Balance December 31, 2016	\$ 2,692,074	Balance December 31, 2016	\$ (153,124)
2017 Acquisitions	1,056	2017 Depreciation	<u>(66,333)</u>
2017 Improvements	<u>28,675</u>	Balance December 31, 2017	<u>(219,457)</u>
Balance December 31, 2017	2,721,805	2018 Depreciation	(60,821)
2018 Improvements	9,052	2018 Accumulated depreciation on dispositions	<u>633</u>
2018 Dispositions	(5,359)	Balance December 31, 2018	<u>(279,645)</u>
2018 Impairments	<u>(11,818)</u>	2019 Depreciation	(41,737)
Balance December 31, 2018	2,713,680	2019 Accumulated depreciation on disposition	94,853
2019 Improvements	4,039		
2019 Dispositions	<u>(1,004,892)</u>		
	<u>\$ 1,712,827</u>		<u>\$ (226,529)</u>

FOOTNOTES:

- (1) Buildings and building improvements are depreciated over 39 and 15 years, respectively. Tenant improvements are depreciated over the terms of their respective leases.
- (2) The aggregate cost for federal income tax purposes is approximately \$1.9 billion.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
SCHEDULE IV – MORTGAGE LOANS ON REAL ESTATE
YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017 (in thousands)

The following is a reconciliation of mortgages and other notes receivable on real estate for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 1,688	\$ 1,179	\$ —
Additions during period:			
New mortgage loans and additional advances	531	432	1,168
Accrued and deferred interest	9	77	11
Deductions during period:			
Collection of principal	<u>(1,746)</u>	<u>—</u>	<u>—</u>
Balance at end of year	<u>\$ 482</u>	<u>\$ 1,688</u>	<u>\$ 1,179</u>

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no changes in or disagreements with our independent registered accountants during the period ended December 31, 2019.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) under the Exchange Act, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on management's assessment, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control Integrated Framework (2013).

Pursuant to rules established by the SEC, this annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting.

Changes in Internal Control over Financial Reporting

During the most recent fiscal quarter, there was no change in our internal controls over financial reporting (as defined under Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers

Our directors and executive officers as of March 25, 2020 were as follows:

Name	Age	Position
James M. Seneff, Jr.	73	Director and Chairman of the Board
Stephen H. Mauldin	51	Director, Vice Chairman of the Board, President and Chief Executive Officer
James Chandler Martin	69	Independent Director and Audit Committee Financial Expert
Michael P. Haggerty	67	Independent Director
J. Douglas Holladay	73	Independent Director
Ixchell C. Duarte	53	Chief Financial Officer, Senior Vice President and Treasurer (Principal Financial Officer)
John F. Starr	45	Chief Operating Officer and Senior Vice President
Tracey B. Bracco	40	General Counsel, Senior Vice President and Secretary

James M. Seneff, Jr. *Chairman of the Board and Director.* On December 7, 2017, Mr. Seneff was re-appointed to serve as chairman of the board and director of the Company. Mr. Seneff previously served as chairman of the board of directors from May 2011 to June 2016, and as a director since inception in June 2010 to June 2016. Mr. Seneff has served as the chairman of its advisor, CNL Healthcare Corp., since its inception in June 2010. In December 2017, Mr. Seneff was appointed as director and chairman of the board of CNL Strategic Capital, LLC, a public, non-traded operating company formed to acquire debt and equity of private U.S. businesses. Mr. Seneff served as chairman of the board of directors and a director of CNL Lifestyle Properties, Inc., a public, non-traded REIT (2003 to 2017), a director of the managing member of its former advisor, CNL Lifestyle Company, LLC (2003 to December 2010), and a director of its successor advisor, CNL Lifestyle Advisor Corporation (December 2010 to 2017). He served as chairman of the board of directors and a director of CNL Growth Properties, Inc., a public, non-traded REIT, from August 2009 and December 2008, respectively, to June 2016, and has served as a manager of its advisor, CNL Global Growth Advisors, LLC, from 2008 to 2017. Mr. Seneff also served as chairman of the board of directors and a director of Global Income Trust, Inc., another public, non-traded REIT, from April 2009 until its dissolution in December 2015, and served as manager of its advisor until December 2016. Mr. Seneff is the sole member of CNL Holdings, LLC (“CNL Holdings”) and has served as the chairman, chief executive officer and/or president of several of CNL Holdings' subsidiaries, including chief executive officer and president (2008 to 2013), and as chairman from 2013 to present of CNL Financial Group, LLC, our sponsor, and as executive chairman (January 2011 to present), chairman (1988 to January 2011), chief executive officer (1995 to January 2011) and president (1980 to 1995) of CNL Financial Group, Inc., a diversified real estate company. Mr. Seneff also has served on the board of directors of the following CNL Holdings' affiliates: CNL Hotels & Resorts, Inc., a public, non-traded REIT (1996 to April 2007), and its advisor, CNL Hospitality Corp. (1997 to June 2006 (became self-advised)); CNL Retirement Properties, Inc., a public, non-traded REIT, and its advisor, CNL Retirement Corp. (1997 to October 2006); CNL Restaurant Properties, Inc., a public, non-traded REIT, and its advisor (1994 to 2005 (became self-advised)); Trustreet Properties, Inc. (“Trustreet”), a publicly traded REIT (2005 to February 2007); National Retail Properties, Inc., a publicly traded REIT (1994 to 2005); CNL Securities Corp., a FINRA-registered broker-dealer and the managing dealer of our offerings (1979 to 2013); and CNL Capital Markets Corp. (1990 to 2017). Mr. Seneff was also the chairman and a principal stockholder of CNLBancshares, Inc. (1999 to 2015), which owned CNLBank until it merged into Valley National Bank in 2015. Mr. Seneff received his B.A. in business administration from Florida State University.

As a result of these professional and other experiences, Mr. Seneff possesses particular knowledge of real estate acquisitions, ownership and dispositions in a variety of public and private real estate investment vehicles, which strengthens the board's collective knowledge, capabilities and experience. Mr. Seneff is principally responsible for overseeing the formulation of our strategic objectives.

Stephen H. Mauldin, *Vice Chairman of the Board and Director*. Mr. Mauldin has served as vice chairman of the Board and a director since June 2016, as our president since September 2011 and as our chief executive officer since April 2012. Mr. Mauldin is primarily responsible for overseeing the formulation of our strategic objectives. Mr. Mauldin has also served as president and chief executive officer of our Advisor since September 2011 and January 2018 respectively and as chief operating officer from September 2011 to July 2018. Mr. Mauldin has served as a director of CNL Healthcare Properties II, Inc., a public, non-traded REIT, since November 2015, as vice chairman of its board of directors from November 2015 to December 2017, as chairman of its board of directors since January 2018 and as its chief executive officer and president since July 2015. Mr. Mauldin has served as manager and president of its advisor since July 2015, and as chief executive officer of its advisor since January 2018. Mr. Mauldin also served as chief operating officer of its advisor from July 2015 to July 2018. Mr. Mauldin also served as president (from September 2011), chief executive officer (from April 2012) and chief operating officer (September 2011 to April 2012) of CNL Lifestyle Properties, Inc., a public-non-traded REIT, until its dissolution in December 2017, as well as president and chief operating officer of CNL Lifestyle Advisor Corporation, its advisor, from September 2011 to December 31, 2017. Mr. Mauldin also served as president of CNL Growth Properties, Inc., a public, non-traded REIT, from March 2016 and as chief executive officer from August 2016 until its dissolution in October 2017.

Prior to joining the Company, Mr. Mauldin served as a consultant to Crosland, LLC, a privately held real estate development and asset management company headquartered in Charlotte, North Carolina, from March 2011 through August 2011. He previously served as Crosland's chief executive officer, president and a member of its board of directors from July 2010 until March 2011. Mr. Mauldin originally joined Crosland, LLC in August 2006 and served as its chief financial officer from July 2009 to July 2010 and as president of Crosland's mixed-use and multi-used development division prior to his appointment as chief financial officer. Prior to joining Crosland, LLC, from 1998 to August 2006, Mr. Mauldin was a co-founder and served as a partner of Crutchfield Capital, LLC, a privately held investment and operating company with a focus on small and medium-sized companies in the southeastern United States. From 1996 to 1998, Mr. Mauldin held various positions in the capital markets group and the office of the chairman of Security Capital Group, Inc., which prior to its sale in 2002, owned controlling interests in 18 public and private real estate operating companies (eight of which were NYSE-listed) with a total market capitalization of over \$26 billion. Mr. Mauldin graduated with a B.S. in finance from the University of Tampa and received an M.B.A. with majors in real estate, finance, managerial economics and accounting/information systems from the J.L. Kellogg Graduate School of Management at Northwestern University.

As a result of these professional and other experiences, Mr. Mauldin possesses particular knowledge of real estate investment, including acquisition, development, financing, operation, and disposition, which strengthens the Board's collective knowledge, capabilities and experience.

J. Chandler Martin, *Independent Director and Audit Committee Financial Expert*. Mr. Martin has been an independent director and has served as our audit committee financial expert since July 2012. Mr. Martin served as independent director and audit committee financial expert of CNL Healthcare Properties II, Inc., a public-non-traded REIT, from January 2016 to September 2018. Mr. Martin served as Corporate Treasurer of Bank of America, a banking and financial services company, from 2005 until his retirement in March 2008. During his 27 years at Bank of America, Mr. Martin held a number of line and risk management roles, including leadership roles in commercial real estate risk management, capital markets risk management, and private equity investing. As corporate treasurer, he was responsible for funding, liquidity, and interest rate risk management. From 2003 to 2005, Mr. Martin was Bank of America's enterprise market and operational risk executive, and from 1999 until 2003, he served as the risk management executive for Bank of America's global corporate and investment banking. From April 2008 through July 2008, following his retirement, Mr. Martin served as a member of the Counterparty Risk Management Policy Group III ("CPMPG III"), co-chaired its Risk Monitoring and Risk Management Working Group, and participated in the production of CPMPG III's report: "Containing Systemic Risk: The Road to Reform," a forward-looking and integrated framework of risk management best practices. Mr. Martin returned to Bank of America in October 2008 to assist with the integration process for enterprise risk management following Bank of America's acquisition of Merrill Lynch. After working on the transition, Mr. Martin served as Bank of America's enterprise credit and market risk executive until July 2009. Between October 2011 until its acquisition in October 2016, Mr. Martin served as a director of CommunityOne Bancorporation, a community bank holding company headquartered in Asheville, North Carolina. He also serves on the board of directors of Burroughs & Chapin Company, Inc., a South Carolina based real estate investment trust, serving on the audit, personnel and compensation committees. He also serves on the board of directors of Wings Capital Partners LLC, a California based aviation finance company. He serves as a member of

the advisory board of Corrum Capital Management, an alternative investment management firm. Mr. Martin attained an M.B.A. from Samford University and a B.A. in economics from Emory University.

As a result of these professional and other experiences, Mr. Martin possesses particular knowledge of, among other things, systems of internal controls, risk management best practices, sound corporate governance, and the relationship between liquidity, leverage and capital adequacy, which strengthens the board of directors' collective knowledge, capabilities and experience.

Michael P. Haggerty, Independent Director. Mr. Haggerty joined the board of directors as an independent director in April 2012. Mr. Haggerty was a partner at Jackson Walker, LLC, a Dallas-based law firm, for more than 37 years, where he headed the Firm's finance group. Mr. Haggerty's commercial real estate practice included the negotiation, structuring, and documentation of interim and permanent financing of office buildings, shopping centers, retirement facilities, restaurants, industrial properties, and multi-family residential projects. The credit facilities involved both single asset and portfolio transactions; multi-state transactions; partnerships, corporations, REITs, conduits, and pension funds; equity participations; loan participations; letters of credit; multi-creditor facilities; and commercial and residential mortgage warehouse lines of credit. In January 2016, Mr. Haggerty left Jackson Walker, LLC to become the executor of the Estate of Bert Fields, Jr. The estate owns extensive oil and gas properties, the controlling ownership interest of North Dallas Bank & Trust and a ranching operation. Mr. Haggerty is President of Fields Oil & Gas Company, LLC and Fields Cattle Company, LLC and is a director of North Dallas Bank & Trust Co. Mr. Haggerty attained a B.B.A. from the University of Georgia and a J.D. from the University of Virginia School of Law. Since 1978, Mr. Haggerty has been admitted to practice law in the states of both Texas and Georgia.

As a result of these professional and other experiences, Mr. Haggerty possesses particular knowledge of real estate and commercial law, which strengthens the board of directors' collective knowledge, capabilities and experience.

J. Douglas Holladay, Independent Director. Mr. Holladay has been an independent director since April 2012. Mr. Holladay has served as a general partner of Elgin Capital Partners, a private energy company based in Denver from 2008 to the present. From 1999 to 2008, Mr. Holladay was co-founder of a middle market private equity fund, Park Avenue Equity Partners. Since 2011, Mr. Holladay has been a guest columnist for the online Washington Post and is an adjunct professor at Georgetown University. From 2009 to the present, Mr. Holladay has served on the board of directors of Miraval, a privately held luxury resort and spa located in Arizona. From July 2004 to April 2007, Mr. Holladay served as a director of CNL Hotels & Resorts, Inc., a public non-traded REIT affiliated with CNL. From 2004 until July 2008, Mr. Holladay also served as an advisor to Providence Capital (now CNL Opportunity Fund), a hedge fund based in Minnesota. Previously, Mr. Holladay held senior positions at Goldman, Sachs & Co., the U.S. State Department and the White House. While a diplomat, Mr. Holladay was accorded the personal rank of ambassador. Between 2000 and 2009, Mr. Holladay served as a director for Sunrise Senior Living, Inc., a public company that provides senior living services in the United States, Canada and the United Kingdom. Mr. Holladay attained an M.Litt. in political and economic history from Oxford University, an M.A. in theology from Princeton Theological Seminary, and an A.B. in political science from the University of North Carolina, Chapel Hill. He holds honorary doctorates from Morehouse College and Nyack College.

As a result of these professional and other experiences, Mr. Holladay possesses particular knowledge of real estate investment and finance and the capital markets, which strengthens the board of directors' collective knowledge, capabilities and experience.

Ixchell C. Duarte, Chief Financial Officer, Senior Vice President and Treasurer. Ms. Duarte has served as our chief financial officer and treasurer since February 2018 and as a senior vice president since March 2012. She previously served as the Company's chief accounting officer from March 2012 to June 2017 and as a vice president from February 2012 to March 2012. Ms. Duarte has served as senior vice president and chief accounting officer of our Advisor since November 2013. Ms. Duarte served as senior vice president and chief accounting officer of CNL Lifestyle Properties, Inc., a public, non-traded REIT from March 2012 until its dissolution in December 2017. Ms. Duarte served as senior vice president and chief accounting officer of its advisor from November 2013 to December 2017. Ms. Duarte served as senior vice president and chief accounting officer of CNL Growth Properties, Inc., a public non-traded REIT from June 2012 until its dissolution in October 2017. Ms. Duarte served as senior vice president of its advisor from November 2013 to December 2017. She also served as senior vice president and chief accounting officer of Global

Income Trust, Inc., another public non-traded REIT, from June 2012 until its dissolution in December 2015 and served as a senior vice president of its advisor from November 2013 to December 2016. Ms. Duarte has served as chief financial officer and treasurer of CNL Healthcare Properties II, Inc., a public, non-traded REIT, since February 2018 and as senior vice president since January 2016. She also served as chief accounting officer from January 2016 to June 2017 and as senior vice president and chief accounting officer of its advisor, CHP II Advisors, LLC, since July 2015. Prior to rejoining CNL affiliates in January 2012, Ms. Duarte served as controller at GE Capital, Franchise Finance from February 2007 through January 2012. Ms. Duarte served as senior vice president and chief accounting officer of Trustreet Properties, Inc., a publicly traded REIT, from February 2005 until the sale of Trustreet to GE Capital in February 2007. Ms. Duarte served as vice president and controller of CNL Restaurant Properties, Inc. from November 1999 through February 2005 and held various positions with CNL affiliates from September 1995 to February 2005, including director of accounting, controller, chief financial officer, secretary and treasurer. Prior to joining CNL's affiliates, Ms. Duarte worked in the New York City audit practice of KPMG, LLP from September 1988 through August 1990 and for the Orlando, FL audit practice of Coopers & Lybrand from September 1990 through September 1995. She received a B.S. in accounting from the Wharton School of the University of Pennsylvania in 1988 and is a certified public accountant and a chartered global management accountant.

John F. Starr. *Chief Operating Officer and Senior Vice President.* Mr. Starr has served as the Company's chief operating officer since February 2018 and as senior vice president since March 2013. Mr. Starr has served as senior vice president of our Advisor since March 2013 and as chief operating officer since July 2018. Mr. Starr also has served as chief operating officer of CNL Healthcare Properties II, Inc., a public, non-traded REIT, since February 2018 and as senior vice president since January 2016. Mr. Starr has served as senior vice president of its advisor, CHP II Advisors, LLC, since its inception July 9, 2015, and as chief operating officer since July 2018. Mr. Starr served as senior vice president of CNL Lifestyle Properties, Inc., from March 2013 until its dissolution in December 2017. Mr. Starr served as chief portfolio management officer of CNL Growth Properties, Inc., a public, non-traded REIT from December 2012 until its dissolution in October 2017. Mr. Starr served as chief portfolio management officer of Global Income Trust, Inc. from December 2012 until its dissolution in December 2015. Mr. Starr has served as group chief operating officer at CNL Financial Group Investment Management, LLC since February 2018, and served as chief portfolio management officer (January 2013 to November 2015) and chief portfolio officer (November 2015 to February 2018) responsible for developing and implementing strategies to maximize the financial performance of CNL's real estate portfolios. He also served as a senior vice president of CNL Private Equity Corp. from December 2010 until his appointment as the chief portfolio management officer. Between June 2009 and December 2010, he served as CNL Private Equity Corp.'s senior vice president of asset management, responsible for the oversight and day-to-day management of all real estate assets from origination to disposition. At CNL Management Corp., Mr. Starr served as senior vice president of asset management, from June 2007 to December 2010. Between January 2004 and February 2005, Mr. Starr served as vice president of real estate portfolio management at Trustreet, and from February 2005 to February 2007, he served as Trustreet's vice president of special servicing, and as president of a Trustreet affiliate, where he was responsible for the resolution and value optimization of distressed leases and loans. From February 2007 to May 2007, following the sale of Trustreet to GE Capital, he served as GE Capital, Franchise Finance's vice president of special servicing, before rejoining CNL affiliates in June 2007. Between May 2002 and January 2004, Mr. Starr was assistant vice president of special servicing at CNL Restaurant Properties, Inc. Prior to joining CNL's affiliates, Mr. Starr served in various positions in the credit products management group at Wachovia Bank, Orlando, Florida, from December 1997 to May 2002. Mr. Starr received a B.S. in business and an M.B.A. from the University of Florida in 1997 and 2007, respectively.

Tracey B. Bracco, *General Counsel, Senior Vice President and Secretary.* Ms. Bracco has served as our general counsel, senior vice president and secretary since March 2018. She previously served as assistant general counsel and assistant secretary of the Company from June 2014 until March 2018 and as vice president from March 2013 to March 2018. Ms. Bracco has also served as vice president of our advisor since November 2013. Ms. Bracco also has served as general counsel and secretary of CNL Healthcare Properties II, Inc., a public, non-traded REIT, since August 23, 2016 and as its vice president since January 2016. Ms. Bracco has also served as vice president of CHP II Advisors, LLC, the advisor to CNL Healthcare Properties II, Inc., since its inception on July 9, 2015. Ms. Bracco has served as group general counsel, fund management of CNL Financial Group Investment Management, LLC since May 2018, and previously served as deputy general counsel, real estate (March 2016 to May 2018) and previously served as assistant general counsel (April 2013 to March 2016), where she oversees CNL's non-traded REITS, as well as supervising the acquisition and asset management functions relating to fund management for CNL. Ms. Bracco serves as general counsel of CNL Strategic Capital, LLC, a public, non-traded operating company formed to acquire debt

and equity of private U.S. businesses. Ms. Bracco served as assistant general counsel and assistant secretary of CNL Lifestyle Properties, Inc., a public, non-traded REIT, from June 2014 and as vice president since March 2013 until its dissolution in December 2017 and as vice president of its advisor since November 2013. Prior to joining CNL Lifestyle Properties, Inc., Ms. Bracco spent six years in private legal practice, primarily at the law firm of Lowndes, Drosdick, Doster, Kantor & Reed, P.A., in Orlando, Florida. Ms. Bracco is licensed to practice law in Florida and is a member of the Florida Bar Association and the Association of Corporate Counsel. She received a B.S. in Journalism from the University of Florida and her J.D. from Boston University School of Law.

Corporate Governance:

Board Leadership Structure and Risk Oversight

Separate CEO and Chairman

The Company currently operates under a leadership structure in which the positions of chairman of the Board and chief executive officer have been separated, such that each position is held by a different person. Although the Board has no mandatory policy with respect to the separation of the offices of chairman and the chief executive officer, the Board believes that it is appropriate to have these as separate positions at this time on account of the varying strengths, experiences and relationships of each of these individuals in the real estate industry. Mr. Seneff serves as the chairman of the Board and has unique knowledge, experience and relationships with the board of directors and management and within a broad spectrum of the real estate market. Mr. Mauldin serves as our president and chief executive officer, in addition to his position of vice chairman of the Board.

Board Structure and Director Independence

Under our organizational documents, we must have at least three but not more than fifteen directors. The Board of Directors has currently set the number of directors at five. A majority of these directors must be “independent.” An “Independent Director” is defined under our Third Articles of Amendment and Restatement (“Charter”) as one who is not, and within the last two years has not been, directly or indirectly associated with the Sponsor or the Advisor by virtue of (i) ownership of an interest in the Sponsor, the Advisor or any of their affiliates, (ii) employment by the Sponsor, the Advisor or any of their affiliates, (iii) service as an officer or director of the Sponsor, the Advisor or any of their affiliates, (iv) performance of services, other than as a director, for the Company, (v) service as a director or trustee of more than three REITs sponsored by the Sponsor or advised by the Advisor, or (vi) maintenance of a material business or professional relationship with the Sponsor, Advisor or any of their affiliates. An indirect relationship shall include circumstances in which a director’s spouse, parents, children, siblings, mothers- or fathers-in-law, sons- or daughters-in-law or brothers- or sisters-in-law is or has been associated with the Sponsor, the Advisor, any of their affiliates or the Company. A business or professional relationship is considered material if the gross revenue derived by the director from the Sponsor, the Advisor and any of their affiliates exceeds five percent of either the director’s annual gross revenue during either of the last two years or the director’s net worth on a fair market value basis. The Board annually reviews business and charitable relationships of directors in order to make a determination as to the independence of each director. Only those directors whom the Board determines have no material relationship with us or our affiliates that would impair their independent judgment are considered independent directors. The Board has considered the independence of each director and nominee for election as a director in accordance with the elements of independence set forth in our Charter and the elements of independence in the listing standards of the New York Stock Exchange (“NYSE”), even though our shares are not listed on the NYSE. After performing such a review, based upon information solicited from each nominee, the Board has affirmatively determined that each of Messrs. Martin, Haggerty and Holladay has no material relationship with the Company (either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company) other than as a director of the Company and each satisfies the elements of independence set forth in our Charter and in the listing standards of the NYSE, as currently in effect. There are no familial relationships between any of our directors and executive officers.

We believe that our Board leadership structure is effective for the Company and provides for appropriate oversight of the Company’s risk management, by providing balanced leadership through the separated chairman and chief executive officer positions, and by having strong independent leaders on the Board who are fully engaged and provide significant input into Board deliberations and decisions. Below is additional information about our risk oversight procedures.

Board Meetings and Attendance

The Board of Directors held five (5) meetings in 2019. All directors attended 100% of the meetings of the Board. Although the Company does not have a policy on director attendance at the annual meetings of stockholders, directors are encouraged to do so.

Committees of the Board

Audit Committee

The Company has a standing Audit Committee, the members of which are selected by the Board each year. The Audit Committee, which is composed entirely of Independent Directors, is chaired by an Independent Director. The current membership of the Audit Committee and other descriptive information is summarized below.

<u>Independent Directors</u>	<u>Position</u>
J. Chandler Martin	C, E
Michael P. Haggerty	M
J. Douglas Holladay	M
Number of 2019 Meetings	4

FOOTNOTES:

C – Committee Chair

E – Audit Committee Financial Expert

M – Committee Member

The Audit Committee operates under a written charter adopted by the Board, which can be found in the Corporate Governance section of the Investor Relations page of our website, CNLHealthcareProperties.com.

The Audit Committee assists the Board by providing oversight responsibilities relating to the following:

- The integrity of financial reporting;
- The annual independent audit process;
- The independence, qualifications and performance of our independent auditor;
- Our systems of internal control over financial reporting and disclosure controls and procedures;
- The performance of our internal audit department;
- Compliance with management’s audit, accounting and financial reporting policies and procedures;
- Our policies and procedures for risk assessment and risk management; and
- The process to estimate the Company’s NAV per share on an annual basis.

In addition, the Audit Committee engages and is responsible for the compensation and oversight of the Company’s independent auditors and internal auditors. In performing these functions, the Audit Committee meets periodically with the independent auditors, management and internal auditors (including private sessions) to review the results of their work. During the year ended December 31, 2019, the Audit Committee held a total of four (4) meetings, including four (4) meetings with the Company’s independent auditors, internal auditors and management to discuss the annual and quarterly financial reports prior to the filing of such reports with the SEC (the Commission”). Each member of the Audit Committee attended 100% of the meetings.

The Board has determined that each member of the Audit Committee is independent under our Charter and the listing standards of the NYSE, as currently in effect. In addition, the Audit Committee determined that Mr. Martin is an “audit committee financial expert” under the rules and regulations of the Commission for purposes of Section 407 of the Sarbanes-Oxley Act of 2002.

Other Board Committees

In August 2013, the Board initiated a process to estimate the Company's NAV per share and created the Valuation Committee, charged with oversight of the Company's valuation process (the "Valuation Committee").

In April 2018, the Board appointed a special committee comprised solely of independent directors (the "Special Committee") to review and evaluate the possible strategic alternatives and to act as independent and disinterested directors for purposes of Maryland law with respect to the review of possible strategic alternatives and all matters pertaining thereto.

Currently, the Company does not have a nominating committee or a compensation committee. The Board is of the view that it is not necessary to have a nominating committee at this time because the Board is composed of only five members, a majority of whom are "independent" (as defined under our Charter and the listing standards of the NYSE, as currently in effect). The Board does not have a compensation committee because the Company is externally advised and does not have any employees. We do not separately compensate our executive officers for their services as officers. At such time, if any, as the Company's shares of common stock are listed on a national securities exchange such as the NYSE or the NASDAQ Stock Market, or the Company has employees to whom it directly provides compensation, the Board will form a compensation committee, the members of which will be selected by the full Board annually.

Risk Oversight

The Audit Committee focuses on the adequacy of the Company's enterprise risk management and risk mitigation processes. The Audit Committee meets regularly to discuss the strategic direction and the issues and opportunities facing the Company in light of trends and developments in the REIT industry and general business environment. Throughout the year, the Board provides guidance to management regarding the Company's strategy and helps to refine its operating plans to implement the Company's strategy. Annually, Internal Audit presents the results of the enterprise risk assessment to the Audit Committee. The risk assessment approach includes reviewing the categories of risk the Company faces, including any fraud and business risks, as well as the likelihood of occurrence, the potential impact of those risks and mitigating measures. The involvement of the Audit Committee in setting the Company's business strategy is critical to the determination of the types and appropriate levels of risk undertaken by the Company. The Board's role in risk oversight of the Company is consistent with the Company's leadership structure, with the president and chief executive officer and other members of senior management having responsibility for assessing and managing the Company's risk exposure, and the Board and the Audit Committee providing oversight of risk management efforts.

Committee Charters and Other Corporate Governance Documents

The Board has adopted corporate governance policies and procedures that the Board believes are in the best interest of the Company and its stockholders as well as compliant with the Sarbanes-Oxley Act of 2002 and the rules and regulations of the Commission, more particularly:

- A majority of the Board and all of the members of the Audit Committee are independent, as discussed above in "Board Structure and Director Independence."
- The Board has adopted a charter for the Audit Committee; and one member of the Audit Committee is an "audit committee financial expert" as defined in Commission rules.
- The Audit Committee hires, determines compensation of, and decides the scope of services performed by the Company's independent auditors.
- The Company has adopted a Code of Business Conduct that applies to all directors, managers, officers and employees of the Company, as well as all directors, managers, officers and employees of the Advisor. The Code of Business Conduct sets forth the basic principles to guide their day-to-day activities.
- The Company has adopted a Whistleblower Policy that applies to the Company and all employees of the Advisor, and establishes procedures for the anonymous submission of employee complaints or concerns regarding financial statement disclosures, accounting, internal accounting controls or auditing matters.

The Audit Committee Charter, and the Whistleblower Policy and the Code of Business Conduct are available in the Corporate Governance section of the Forms and Literature page of our website, CNLHealthcareProperties.com, and will be sent to any stockholder who requests them from CNL Client Services, 450 South Orange Avenue, Orlando, Florida 32801, (866) 650-0650.

Item 11. EXECUTIVE COMPENSATION

Board of Directors Report on Compensation

The following report of the Board should not be deemed “filed” with the Commission or incorporated by reference into any other filing the Company makes under the Securities Act or the Exchange Act except to the extent the Company specifically incorporates this report by reference therein.

The Board reviewed and discussed with management the Compensation Discussion and Analysis set forth below (“CD&A”). Based on the Board’s review of the CD&A and the Board’s discussions of the CD&A with management, the Board approved including the CD&A in this Annual Report on Form 10-K for filing with the Commission.

Board of Directors

James M. Seneff, Jr.
Stephen H. Mauldin
J. Chandler Martin
Michael P. Haggerty
J. Douglas Holladay

Compensation Discussion and Analysis

The Company has no employees and all of its executive officers are officers of the Advisor and/or one or more of the Advisor’s affiliates and are compensated by those entities, in part, for their service rendered to the Company. The Company does not separately compensate its executive officers for their service as officers. The Company did not pay any annual salary or bonus or long-term compensation to its executive officers for services rendered in all capacities to the Company during the year ended December 31, 2019. See “Certain Relationships and Related Transactions” for a description of the fees paid and expenses reimbursed to the Advisor and its affiliates.

If the Company determines to compensate named executive officers in the future, the board of directors will review all forms of compensation and approve all stock option grants, warrants, stock appreciation rights and other current or deferred compensation payable with respect to the current or future value of the Company’s shares.

Compensation of Directors

Two of our directors, Messrs. Seneff and Mauldin, are employed by and receive compensation from affiliates of our Advisor. We do not separately compensate them for their services as directors to the Company. Below is information regarding the compensation program in effect during 2019 for our independent directors.

Annual Board Retainer	\$45,000
Annual Audit Committee Chair Retainer	\$10,000
Annual Special Committee Retainer	\$35,000
Annual Special Committee Chair Retainer	\$45,000
Board and Committee Meeting Attendance Fees	\$2,000 for each Board and Committee Meeting attended
Other Fees	\$2,000 per day for other meetings and Company related business outside of normally scheduled Board and Committee meetings, however, no compensation is paid for attending Annual Meetings of Stockholders.

In addition to the above Annual retainers and fees, we pay for or reimburse our independent directors for their meeting-related expenses. The purpose of our independent director compensation program is to allow us to continue to attract and retain qualified Board members and recognize the significant commitment required of our directors.

The following table gives information regarding the compensation we provided to our directors in 2019.

Name	Fees Earned or Paid	Total Compensation
	in Cash	
James M. Seneff, Jr. (Chairman)	\$ —	\$ —
Stephen H. Mauldin	—	—
J. Chandler Martin	126,000	126,000
Michael P. Haggerty	106,000	106,000
J. Douglas Holladay	106,000	106,000

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information regarding the shares of the Company's common stock beneficially owned by each director and nominee, by each executive officer and by all executive officers and directors as a group, based upon information furnished by such stockholders, directors and officers. Unless otherwise noted below, such persons have sole investment and voting power over the shares. The address of the named officers and directors is CNL Center at City Commons, 450 South Orange Avenue, Orlando, Florida 32801.

The number of shares of our common stock beneficially owned by any director or executive officer did not exceed 1% of the total shares outstanding at March 25, 2020.

<u>Name</u>	<u>Number of Shares</u>	<u>Percent of Shares</u>
J. Chandler Martin	—	0.0%
Michael P. Haggerty	—	0.0%
J. Douglas Holladay	—	0.0%
James M. Seneff, Jr ⁽¹⁾	1,370,820	0.8%
Stephen H. Mauldin	6,133	0.0% ⁽²⁾
John F. Starr	406	0.0% ⁽²⁾
Ixchell C. Duarte	—	0.0%
Tracey B. Bracco	—	0.0%
All directors and executive officers as a group (8 persons)	<u>1,377,359</u>	<u>0.8%</u>

FOOTNOTES:

- ⁽¹⁾ Represents shares held of record by the Advisor.
- ⁽²⁾ The number of shares of our common stock beneficially owned by any director or executive officer did not exceed 0.1% of the total shares outstanding as of March 25, 2020.

Five Percent Stockholders

There are no persons who are known to us to be the beneficial owners of more than 5% of our outstanding common stock as of December 31, 2019 or March 16, 2020.

Section 16(a) Beneficial Ownership Reporting Compliance

Our executive officers and directors are required under Section 16(a) of the Securities Exchange Act of 1934 (the "Exchange Act") to file with the Commission reports regarding their ownership and changes in their ownership of the Company's securities. Copies of those reports must also be furnished to us. Based solely on a review of the copies of reports furnished to us with respect to 2019 and written representations that no other reports were required, we believe that our executive officers and directors have complied in a timely manner with all applicable Section 16(a) filing requirements. Section 16(a) of the Exchange Act also requires persons who own more than 10% of the Company's securities to report ownership and changes in ownership to the Commission. To the Company's knowledge, there are no stockholders who own more than 10% of the Company's outstanding common stock.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The Company is externally advised and has no direct employees. In addition, certain directors and officers hold similar positions with the Managing Dealer, our Advisor and their affiliates. In connection with services provided to the Company, affiliates are entitled to certain fees as described in Note 11 “Related Party Arrangements” in Item 8. “Financial Statements and Supplementary Data.”

During 2019, the Company’s Total Operating Expenses incurred represented approximately 1.5% of Average Invested Assets, as each term is defined in the Company’s Charter. During 2019, the Company’s Total Operating Expenses incurred represented approximately 54.3% of Net Income, as each term is defined in the Company’s Charter.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Auditor Fees

PricewaterhouseCoopers LLP serves as the Company’s principal accounting firm and audited the Company’s consolidated financial statements for the years ended December 31, 2019 and 2018.

The following table presents fees for professional audit services rendered by PricewaterhouseCoopers LLP for the audit of our annual financial statements for the years ended December 31, 2019 and 2018, and fees billed for other services rendered (for audit and non-audit services and all “out-of-pocket” costs incurred in connection with these services) by PricewaterhouseCoopers LLP during these periods.

	Years Ended December 31,	
	2019	2018
Audit fees	\$ 793,636	\$ 811,679
Audit-related fees	—	—
Tax fees	453,945	546,808
All other fees	—	—
Total Fees	<u>\$ 1,247,581</u>	<u>\$ 1,358,487</u>

Audit Fees – Consists of professional services rendered in connection with the annual audit of the Company’s consolidated financial statements included in the Company’s Annual Report on Form 10-K and quarterly reviews of the Company’s interim financial statements included in the Company’s quarterly reports on Form 10-Q. Audit fees also include fees for services performed by PricewaterhouseCoopers that are closely related to the audit and in many cases could only be provided by the Company’s independent auditors. Such services include consents related to the Company’s registration statements, assistance with, and review of, other documents filed with the Commission and accounting advice on completed transactions.

Audit-Related Fees – There were no professional services rendered by PricewaterhouseCoopers that would be classified as audit-related fees during the years ended December 31, 2019 and 2018.

Tax Fees – Consists of services related to corporate tax compliance, including preparation of corporate tax returns, review of the tax treatments for certain expenses, tax due diligence or other consulting fees.

All Other Fees – There were no professional services rendered by PricewaterhouseCoopers that would be classified as other fees during the years ended December 31, 2019 and 2018.

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE

(a) List of Documents Filed as a Part of This Report.

(1) Index to Consolidated Financial Statements:

CNL Healthcare Properties, Inc.

Report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2019 and 2018

Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017

Consolidated Statement of Comprehensive Income (Loss) for the years ended December 31, 2019, 2018, 2017

Consolidated Statements of Stockholders' Equity and Redeemable Noncontrolling Interest for the years ended December 31, 2019, 2018 and 2017

Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017

Notes to Consolidated Financial Statements

(2) Index to Financial Statement Schedules:

Schedule II – Valuation and Qualifying Accounts for the years ended December 31, 2019, 2018 and 2017

Schedule III – Real Estate and Accumulated Depreciation as of December 31, 2019

Schedule IV – Mortgage Loans on Real Estate for the years ended December 31, 2019, 2018 and 2017

(3) Index to Exhibits (refer below).

Item 16. FORM 10-K SUMMARY

None.

EXHIBIT INDEX

CNL Healthcare Properties, Inc. was formerly known as CNL Healthcare Trust, Inc., CNL Properties Trust, Inc., and CNL Diversified Lifestyle Properties, Inc.

Exhibits:

- 1.1 Form of Managing Dealer Agreement *(Previously filed as Exhibit 1.1 to the Pre-effective Amendment No. 2 to the Registration Statement on Form S-11 (File No. 333-196108) filed January 21, 2015 and incorporated herein by reference.)*
- 1.2 Form of Participating Broker Agreement *(Previously filed as Exhibit 1.2 to the Pre-effective Amendment No. 2 to the Registration Statement on Form S-11 (File No. 333-196108) filed January 21, 2015 and incorporated herein by reference.)*
- 1.3 Form of Selected Dealer Agreement dated February 25, 2015, among CNL Healthcare Properties, Inc., CNL Securities Corp., CNL Healthcare Corp., CNL Financial Group, LLC and Ameriprise Financial Services, Inc. *(Previously filed as Exhibit 1.3 to the Post-effective Amendment No. 2 to the Registration Statement on Form S-11 (File No. 333-196108) filed June 2, 2015 and incorporated herein by reference.)*
- 3.1 Third Articles of Amendment and Restatement of CNL Healthcare Properties, Inc. *(Previously filed as Exhibit 3.1 to the Current Report on Form 8-K filed July 25, 2016 and incorporated herein by reference.)*
- 3.2 Third Amended and Restated Bylaws of CNL Healthcare Properties, Inc., effective June 27, 2013 *(Previously filed as Exhibit 3.2 to the Current Report on Form 8-K filed July 2, 2013 and incorporated herein by reference.)*
- 4.1 Form of Subscription Agreement *(Previously filed as Appendix A to Pre-effective Amendment Two to the Registration Statement on Form S-11 (File No. 333-196108) filed January 21, 2015 and incorporated herein by reference.)*
- 4.4 Statement regarding restrictions on transferability of shares of common stock (to appear on stock certificate or to be sent upon request and without charge to stockholders issued shares without certificates) *(Previously filed as Exhibit 4.5 to the Pre-effective Amendment One to the Registration Statement on Form S-11 (File No. 333-168129) filed October 20, 2010 and incorporated herein by reference.)*
- 10.1 Amended and Restated Limited Partnership Agreement of CNL Properties Trust, LP dated June 8, 2011 *(Previously filed as Exhibit 10.1 to Pre-effective Amendment Three to the Registration Statement on Form S-11 (File No. 333-168129) filed June 10, 2011 and incorporated herein by reference.)*
- 10.2 Advisory Agreement dated June 8, 2011, between CNL Properties Trust, Inc., CNL Properties Trust LP, and CNL Properties Corp. *(Previously filed as Exhibit 10.3 to Pre-effective Amendment Three to the Registration Statement on Form S-11 (File No. 333-168129) filed June 10, 2011 and incorporated herein by reference.)*
- 10.2.1 First Amendment to Advisory Agreement dated October 5, 2011, by and between CNL Properties Trust, Inc., CNL Properties Corp., and CNL Properties Trust, LP *(Previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed October 5, 2011 and incorporated herein by reference.)*
- 10.2.2 Second Amendment to Advisory Agreement dated March 20, 2013, by and among CNL Healthcare Properties, Inc., CHP Partners, LP and CNL Healthcare Corp. *(Previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed March 26, 2013 and incorporated herein by reference.)*
- 10.3 First Amended and Restated Property Management and Leasing Agreement dated June 28, 2012, by and between CNL Healthcare Trust, Inc., CHT Partners, LP, its various subsidiaries and CNL Healthcare Manager Corp. *(Previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed July 2, 2012 and incorporated herein by reference.)*

- 10.3.1 First Amendment to First Amended and Restated Property Management and Leasing Agreement dated April 1, 2013, by and between CNL Healthcare Properties, Inc. and CHP Partners, LP, and CNL Healthcare Manager Corp. *(Previously filed as Exhibit 10.3.1 to Pre-effective Amendment Two to Form S-11 (File No. 333-196108) filed January 21, 2015 and incorporated herein by reference.)*
- 10.4 Service Agreement dated as of June 8, 2011, by and between CNL Capital Markets Corp. and CNL Properties Trust, Inc. *(Previously filed as Exhibit 10.5 to Pre-effective Amendment Three to the Registration Statement on Form S-11 (File No. 333-168129) filed June 10, 2011 and incorporated herein by reference.)*
- 10.4.1 Second Addendum to Service Agreement dated March 20, 2013, by and between CNL Capital Markets Corp. and CNL Healthcare Properties, Inc. *(Previously filed as Exhibit 10.3 to the Current Report on Form 8-K filed March 26, 2013 and incorporated herein by reference.)*
- 10.5 Expense Support and Restricted Stock Agreement effective April 1, 2013, by and between CNL Healthcare Properties, Inc. and CNL Healthcare Corp. *(Previously filed as Exhibit 10.2 to the Current Report on Form 8-K filed March 26, 2013 and incorporated herein by reference.)*
- 10.5.1 First Amendment to Expense Support and Restricted Stock Agreement dated November 7, 2013, by and between CNL Healthcare Properties, Inc. and CNL Healthcare Corp. *(Previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed November 26, 2013 and incorporated herein by reference.)*
- 10.5.2 Second Amendment to Expense Support and Restricted Stock Agreement effective as of April 3, 2014, by and between CNL Healthcare Properties, Inc. and CNL Healthcare Corp. *(Previously filed as Exhibit 10.4 to the Current Report on Form 8-K filed April 3, 2014 and incorporated herein by reference.)*
- 10.5.3 Third Amendment to Expense Support and Restricted Stock Agreement effective as of January 1, 2016, by and between CNL Healthcare Properties, Inc. and CNL Healthcare Corp. *(Previously filed as Exhibit 10.5.3 to the Form 10-K filed March 16, 2016 and incorporated herein by reference.)*
- 10.5.4 Fourth Amendment to Expense Support and Restricted Stock Agreement effective as of January 1, 2017, by and between CNL Healthcare Properties, Inc. and CNL Healthcare Corp. *(Previously filed as Exhibit 10.5.4 to the Current Report on Form 8-K filed February 13, 2017 and incorporated herein by reference.)*
- 10.6 Expense Support and Restricted Stock Agreement effective July 1, 2013, by and among CNL Healthcare Properties, Inc. and CNL Healthcare Manager Corp. *(Previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed August 27, 2013 and incorporated herein by reference.)*
- 10.6.1 First Amendment to Expense Support and Restricted Stock Agreement dated November 7, 2013, by and between CNL Healthcare Properties, Inc. and CNL Healthcare Manager Corp. *(Previously filed as Exhibit 10.2 to the Current Report on Form 8-K filed November 26, 2013 and incorporated herein by reference.)*
- 10.6.2 Second Amendment to Expense Support and Restricted Stock Agreement effective as of April 3, 2014, by and between CNL Healthcare Properties, Inc. and CNL Healthcare Manager Corp. *(Previously filed as Exhibit 10.5 to the Current Report on Form 8-K filed April 3, 2014 and incorporated herein by reference.)*
- 10.6.3 Third Amendment to Expense Support and Restricted Stock Agreement effective as of January 1, 2016, by and between CNL Healthcare Properties Inc. and CNL Healthcare Manager Corp. *(Previously filed as Exhibit 10.6.3 to the Form 10-K filed March 16, 2016 and incorporated herein by reference.)*
- 10.6.4 Fourth Amendment to Expense Support and Restricted Stock Agreement effective as of January 1, 2017, by and between CNL Healthcare Properties Inc. and CNL Healthcare Manager Corp. *(Previously filed as Exhibit 10.6.4 to the Current Report on Form 8-K filed February 13, 2017 and incorporated herein by reference.)*
- 10.7 Form of Indemnification Agreement dated April 13, 2012, between CNL Healthcare Trust, Inc. and each of James M. Seneff, Jr., Thomas K. Sittema, Michael P. Haggerty, J. Douglas Holladay, Stephen H. Mauldin, Joseph T. Johnson, Ixchell C. Duarte and Holly J. Greer, and for J. Chandler Martin dated July 27, 2012 *(Previously filed as Exhibit 99.1 to the Current Report on Form 8-K filed April 19, 2012 and incorporated herein by reference.)*

- 10.59 Credit Agreement dated as of May 15, 2019 by and between CHP Partners, LP, as borrower, and KeyBank National Association, as agent for itself and the other lenders *(Previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed May 15, 2019 and incorporated herein by reference.)*
- 10.60 Credit Agreement dated as of May 15, 2019 by and between CHP Partners, LP, as borrower, and KeyBank National Association, as agent for itself and the other lenders *(Previously filed as Exhibit 10.2 to the Current Report on Form 8-K filed May 15, 2019 and incorporated herein by reference.)*
- 10.61 Guaranty Agreement dated as of May 15, 2019 by CNL Healthcare Properties, Inc. and certain of its subsidiaries *(Previously filed as Exhibit 10.4 to the Current Report on Form 8-K filed May 15, 2019 and incorporated herein by reference.)*
- 10.62 Term Note dated May 15, 2019 by CHP Partners, LP in favor of KeyBank National Association *(Previously filed as Exhibit 10.3 to the Current Report on Form 8-K filed May 15, 2019 and incorporated herein by reference.)*
- 10.63 Agreement of Purchase and Sale dated as of December 27, 2018 by and between CHP Partners, LP, CNL Healthcare Properties, Inc., certain subsidiaries of the Company and Welltower OM Group LLC *(Previously filed as Exhibit 10.6.3 to the Annual Report on Form 10-K filed March 21, 2019 and incorporated herein by reference.)*
- 10.64 Schedule of Omitted Documents *(Filed herewith.)*
- 21.1 Subsidiaries of the Registrant *(Filed herewith.)*
- 23.1 Consent of Independent Registered Public Accounting Firm - PricewaterhouseCoopers LLP. *(Filed herewith.)*
- 31.1 Certification of Chief Executive Officer of CNL Healthcare Properties, Inc., Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *(Filed herewith.)*
- 31.2 Certification of Chief Financial Officer of CNL Healthcare Properties, Inc., Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *(Filed herewith.)*
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer of CNL Healthcare Properties, Inc., Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *(Filed herewith.)*
- 101 The following materials from CNL Healthcare Properties, Inc., Annual Report on Form 10-K for the year ended December 31, 2018, formatted in XBRL (Extensible Business Reporting Language); (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Loss, (iv) Consolidated Statements of Stockholders' Equity and Redeemable Noncontrolling Interest, (v) Consolidated Statements of Cash Flows and (vi) Notes to the Consolidated Financial Statements.

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, on the 26th day of March 2020.

CNL HEALTHCARE PROPERTIES, INC.

By: /s/ Stephen H. Mauldin
STEPHEN H. MAULDIN
Chief Executive Officer and President
(Principal Executive Officer)

By: /s/ Ixchell C. Duarte
IXCHELL C. DUARTE
Chief Financial Officer, Senior Vice President and Treasurer
(Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ James M. Seneff, Jr.</u> JAMES M. SENEFF, JR.	Chairman of the Board	March 26, 2020
<u>/s/ Michael P. Haggerty</u> MICHAEL P. HAGGERTY	Independent Director	March 26, 2020
<u>/s/ J. Douglas Holladay</u> J. DOUGLAS HOLLADAY	Independent Director	March 26, 2020
<u>/s/ J. Chandler Martin</u> J. CHANDLER MARTIN	Independent Director	March 26, 2020
<u>/s/ Stephen H. Mauldin</u> STEPHEN H. MAULDIN	Vice Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)	March 26, 2020
<u>/s/ Ixchell C. Duarte</u> IXCHELL C. DUARTE	Chief Financial Officer, Senior Vice President and Treasurer (Principal Financial and Accounting Officer)	March 26, 2020

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REPORT OF INDEPENDENT DIRECTORS

As Independent Directors of CNL Healthcare Properties, Inc. (the “Company”), in 2019, we continued our work with management, HFF Securities L.P. (“HFF”) and KeyBanc Capital Markets (“KeyBanc”), independent financial advisors, to assist the Company in the analysis of strategic alternatives in an effort to undertake providing liquidity to stockholders. In June 2019, however, the Company terminated its engagement of HFF without cause and subject to a 12-month tail of certain fees and obligations more particularly set forth in HFF’s engagement letter.

In connection with the various strategic opportunities available to the Company, the Board of Directors (the “Board”), including the Independent Directors, at the time believed that one or more of the possible strategic opportunities could implicate potential interests of (i) CNL Healthcare Corp. (the “Advisor”), (ii) CNL Financial Group, LLC (the “Sponsor”) or (iii) their respective affiliates, other than the Company, in each case, which interests may be in addition to, different from or otherwise adverse to the interests of the Company and its stockholders. Therefore, in April 2018, the Board appointed a special committee of the Board (the “Special Committee”) consisting of us, the Independent Directors, who (i) are not affiliated with the Advisor, the Sponsor or their respective affiliates and (ii) do not have a material interest in any possible strategic opportunity (other than an interest by virtue of ownership of common stock or other securities of the Company) to act as independent and disinterested directors for purposes of Maryland law with respect to the review of possible strategic opportunities and all matters pertaining thereto and authorized to review and approve transactions with the Advisor or its affiliates, including the Sponsor, in connection with the possible strategic opportunities. Throughout 2019, the Special Committee made significant progress in this initiative.

During 2019, the Company completed the sale of 61 of its 70 properties classified as held for sale including the sale of 55 medical office buildings and related properties (“MOB Sale”) and six additional properties. The net sales proceeds were used to (1) repay indebtedness secured by or allocated to the 55 properties comprising the MOB Sales; (2) strategically rebalance other corporate borrowings (3) make a special cash distribution to stockholders and (4) for other corporate purposes. As of December 31, 2019, including the nine (9) remaining properties classified as held for sale, the Company’s remaining real estate portfolio consisted of 81 properties including 72 senior housing facilities (the “Senior Housing Portfolio”), seven (7) post-acute care facilities and two (2) acute care hospitals. As Independent Directors, we along with the rest of the Board of Directors will determine the appropriate use of any net proceeds resulting from these sales, which may include: (i) the retirement of indebtedness, including the pay down of our Credit Facilities; (ii) a special distribution to stockholders; (iii) strategic capital expenditures to enhance certain of our remaining properties and/or (iv) retaining a portion of the proceeds for other corporate purposes.

Investment Policies. The Company’s investment policies generally focused on achieving its investment objectives through the purchase of carefully selected existing or to be built, seniors housing and healthcare properties, primarily in the United States. The investment policies required each proposed property acquisition to be submitted to the Board, including the Independent Directors, for approval. When considering whether to approve a proposed property acquisition, the Board generally relied upon an evaluation, conducted by the Company’s Advisor. Even though the

Company is not acquiring any new properties at this time, the Independent Directors are required to review, on an ongoing basis, the investment policies being followed by the Company and its long-term performance expectations. In doing so, the Independent Directors received updates on the performance of the Company's properties, tenants and operators, heard presentations on current outlook for the Company's key assets, and reviewed the impact of market conditions and economic trends on the Company and its portfolio. Based upon this information, the Independent Directors believe that the Company's investment policies remain in the best interest of its stockholders.

Borrowing Policies. There is no limitation on the amount the Company may invest in any single property or other asset or on the amount the Company can borrow for the purchase of any individual property or other investment. Our charter limits the amount we may borrow, in the aggregate, to 300% of our net assets. Any borrowings over this limit must be approved by a majority of our Independent Directors and disclosed to the Company's stockholders along with justification for exceeding this limit. In addition to the Company's charter limitation and indebtedness target, the Company's Board has adopted a policy for the Company's aggregate borrowings not to exceed 60% of the aggregate value of the Company's assets over the long term. The Company's aggregate borrowing, secured and unsecured, will be reasonable in relation to the Company's net assets and are reviewed by the Board at least quarterly. We believe that these borrowing limitations reduce risk of loss and are in the best interests of the Company's stockholders.

Disposition Policies. As each of the Company's investments reaches what the Company believes to be the asset's optimum value during the expected life of the program, the Company will consider disposing of the investment and may do so for the purpose of either distributing the net sale proceeds to the Company's stockholders or investing the proceeds in other assets that the company believes may produce a higher overall return to the Company's investors. Notwithstanding the foregoing, the Independent Directors acknowledge the Company is evaluating strategic alternatives to provide liquidity to its stockholders which may affect the Company's disposition strategy.

Distribution Policies. Distributions are authorized at the discretion of the Company's Board, based on the Company's analysis of its earnings, cash flow, anticipated cash flow, capital expenditure requirements and general financial condition. The Board's discretion will be influenced, in substantial part, by its obligation to cause the Company to comply with the real estate investment trust tax requirements. Because the Company may receive income from interest or rents at various times during the Company's fiscal year, distributions may not reflect the Company's income and cash flow earned in that particular distribution period, but may be made in anticipation of cash flow that the Company expects to receive during a later period and may be made in advance of actual receipt of funds in an attempt to make distributions relatively uniform. Many of the factors that can affect the availability and timing of cash distributions to stockholders are beyond the Company's control, and a change in any one factor could adversely affect the Company's ability to pay future distributions. There can be no assurance that the Company will be able to achieve expected cash flows necessary to pay distributions or maintain distributions at a particular level, or that distributions will increase over time. We believe that the Company's distribution policies are in the best interests of our stockholders because they are in keeping with investors' desire for current income while protecting the Company's liquidity needs.

In May 2019, the Board declared a special cash distribution of \$2.00 per share (the “Special Distribution”) to the holders of record of the Company’s common stock for an aggregate amount of \$347.9 million. This was the first special distribution made by the Company since the Company formed the Special Committee and began exploring strategic alternatives to provide liquidity to its stockholders. Additionally, as a result of the sale of four post-acute care properties and the MOB Sale, the Board adjusted the regular quarterly cash distribution to an amount equal to \$0.0512 per share, compared to \$0.1164 per share in effect since the third quarter of 2017.

In February and March 2020, the Company sold an acute care hospital located in New Orleans and six skilled nursing facilities in Arkansas, respectively, which represented seven of the nine properties it had classified as held for sale as of December 31, 2019.

Related Party Transactions. We have reviewed the annual report and transactions with affiliates as outlined in Note 11 to the Consolidated Financial Statements and in our opinion, the transactions with affiliates are fair and reasonable to the Company and its stockholders and the terms of such transactions are at least as favorable as the terms of comparable transactions made on an arm’s length basis.

Roles and Responsibilities of the Audit Committee. The Audit Committee is comprised of three Independent Directors and operates under a written charter adopted by the Board. The purpose of the Audit Committee is to be an informed and effective overseer of the Company’s financial accounting and reporting processes, as well as to hire, compensate, and evaluate the independent registered public accounting firm. Management has the primary responsibility for establishing and maintaining adequate internal financial controls for preparing the financial statements, and for the public reporting process. PricewaterhouseCoopers LLP, the Company’s independent registered public accounting firm for 2019, is responsible for expressing an opinion on the conformity of the Company’s audited financial statements with generally accepted accounting principles.

The Audit Committee has reviewed and discussed certain matters with PricewaterhouseCoopers, LLP, including, among other items, matters related to the selection, application and disclosure of the Company’s accounting policies. Based on this review and our discussions, we believe that the Company’s accounting policies are accurately and consistently applied.

Valuation Policy. The Company’s valuation policy establishes guidelines in determining net asset value per share of the Company’s outstanding common stock (the “NAV Per Share”) for regulatory and investor reporting and on-going evaluation of investment performance. This policy is based on the Institute for Portfolio Alternatives, a trade association for non-listed direct investment vehicles (“IPA”) as set forth in the Investment Program Association Practice Guideline 2013-01, Valuations of Publicly Registered Non-Listed REITs (the “IPA Practice Guideline 2013-01”). In August 2013, the Company’s Board adopted the Valuation Policy and appointed members of the Audit Committee to serve as the Valuation Committee to oversee the valuation process. The Board engaged an independent third-party valuation firm, Robert A. Stanger & Co., Inc. (“Stanger”) to provide property-level and aggregate valuation analyses of the Company and a range for the NAV per share of the Company’s common stock as of December 31, 2019 and as recommended in the IPA Guidelines. In March 2020, the Board unanimously approved \$7.81 as the estimated NAV per share of the Company’s common stock as of December 31, 2019 (the “2019 NAV”).

In summary, we believe that the Company's portfolio of investments remain consistent with the objectives outlined in the Company's Articles of Incorporation and the policies that guide the Company's investments remain in the best interest of its stockholders.

Annual Report Disclosures Required by Charter

Total Operating Expenses. In accordance with the Statement of Policy Regarding Real Estate Investment Trusts published by the North American Securities Administrators Association, also known as the "NASAA REIT Guidelines", the Company's charter requires that we report to our stockholders annually the Company's "total operating expenses" stated as a percentage of the Company's "average invested assets" and as a percentage of the Company's "net income" (each as defined in the charter). For the year ended December 31, 2019, our total operating expenses stated as a percentage of average invested assets was approximately 1.5% and the ratio of our total operating expenses to net income was approximately 54.3%.

This report is limited to the policies being followed by the Company and the fairness of transactions with the Advisor and its affiliates. For a discussion of the Company's financial condition and operating results, see the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

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Board of Directors

James M. Seneff
Director and Chairman of the Board



Stephen H. Mauldin
Director and Vice Chairman of the Board



J. Chandler Martin
Independent Director
Audit Committee Chairman
Corporate Treasurer (Retired)
Bank of America



Michael P. Haggerty
Independent Director
President
Fields Oil & Gas Company, LLC
Fields Cattle Company, LLC



J. Douglas Holladay
Independent Director
General Partner
Elgin Capital Partners

Executive Officers

Stephen H. Mauldin
CEO and President

Ixchell C. Duarte
Chief Financial Officer, Treasurer and Senior Vice President

John F. Starr
Chief Operating Officer and Senior Vice President

Tracey B. Bracco
General Counsel, Senior Vice President and Secretary

Company Profile

CNL Healthcare Properties (the company) operates as a non-traded real estate investment trust. With a carefully targeted investment strategy, the company has acquired assets it believes will provide the greatest opportunity for both income and capital appreciation. The offering closed to investors on Sept. 30, 2015 and the company has amassed a nationwide portfolio that now primarily consists of seniors housing properties. The company continues to evaluate and execute, as appropriate, on possible strategic alternatives to provide liquidity to shareholders, while continuing to stabilize properties and make capital improvements, as needed.

Shareholder Information

Inquiries by shareholders should be directed to:
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P. O. Box 219001
Kansas City, Missouri 64121-9001
866-650-0650

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800-522-3863
cnlhealthcareproperties.com

Advisor

CNL Healthcare Corp.
Orlando, Florida

Legal Counsel

Arnold & Porter Kaye Scholer LLP
Washington, DC

Independent Registered Certified Public Accounting Firm

PricewaterhouseCoopers LLP
Orlando, Florida

Form 10-K

The company's annual report as filed on Form 10-K with the U.S. Securities and Exchange Commission (the Commission) is enclosed with this report. Additional copies may be obtained at no charge upon written notice to Ms. Tracey B. Bracco, the company's secretary, at the corporate office address above. The Commission maintains a website located at sec.gov that contains reports, proxy and information statements, and other information regarding the company that is filed electronically with the Commission. In addition, the company makes available free of charge on its website, cnlhealthcareproperties.com, the company's filings with the Commission.

Electronic Delivery

Sign up today to receive next year's annual report and proxy materials via the Internet rather than by mail. Additional mailings, such as distribution statements and tax forms, are also available electronically. To sign up to receive these mailings electronically, or to review or change your current delivery preferences, please visit our website at cnlhealthcareproperties.com/gopaperless.

Properties Featured on Front Cover

Top: Watercrest at Katy, *Katy, Texas*
Bottom: Isle at Watercrest – Mansfield, *Mansfield, Texas*

