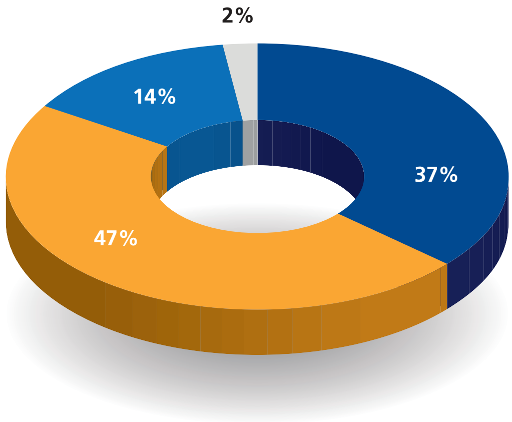
CNL Healthcare Properties

Built on Experience

2020 Annual Report

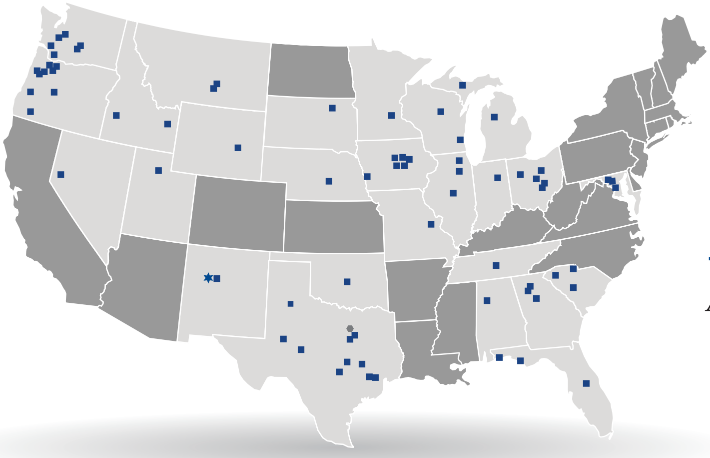
Seniors Housing Portfolio Composition By Units

- Assisted Living
- Indepedent Living
- Memory Care
- Skilled Nursing



"CNL Healthcare Properties remains one of the nation's largest owners of seniors living communities."

Isle at Watercrest – Mansfield - Mansfield, Texas



73 INVESTMENTS

As of March 4, 2021

- Seniors Housing
- Acute Care
- Vacant Land

Geographic Diversification

To Our Shareholders

As we entered 2020, not many could have predicted the COVID-19 pandemic and its unprecedented economic and societal impacts. CNL Healthcare Properties experienced these impacts acutely, as a leading provider of housing and care services to a particularly vulnerable seniors population.

As a company, we moved swiftly and effectively to support our operating partners in their daily mission to deliver uninterrupted, high-quality and compassionate care to our residents during the pandemic environment. Our support included acquiring scarce stocks of hospital-grade personal protective equipment and supplies and deploying those items to our operators and communities, while also driving best practices throughout our portfolio to protect the health and well-being of our over 12,000 residents and staff members. While we experienced confirmed cases of COVID-19 and, sadly, fatalities within our communities, we were, and remain, encouraged by the tireless efforts of our operators to prevent and contain virus spread within each community.

With the onset of the pandemic, the resulting economic and operating environment also required us to shift our focus from the exploration and execution of strategic alternatives to provide liquidity to shareholders through our core seniors housing portfolio. Despite this unanticipated delay, in 2020 we effectively completed the strategic sale of our six skilled nursing facilities in Arkansas and a rehabilitation hospital in New Orleans, generating net sales proceeds of $82.1 million. More recently, in January 2021, we successfully sold our specialty hospital in Kansas and recorded net sales proceeds of $7.4 million. We utilized sales proceeds from all transactions to opportunistically repay debt and further bolster our balance sheet.

Starting in late March 2020, we began to incur unanticipated COVID-19-related operating expenses, including labor, supplies and other virus control and containment costs. We expect these higher operating expenses to persist until the pandemic is widely contained. Occupancy in our seniors living communities trended downward throughout the year as restrictions were imposed by local and state jurisdictions and operator health safety protocols, which were consistent with the overall domestic seniors housing sector. However, by late summer, occupancy declines began to moderate and nearly all our communities were able to intake and welcome new residents.

Despite the operational impacts on our business, we were very pleased to be able to maintain our pre-pandemic shareholder distribution rate, reflecting the company's strong financial condition, liquidity and financial flexibility. We were one of a very few healthcare-related REITs that did not reduce its distribution level in 2020.

We are also pleased to report that more than 70% of residents and staff in our seniors housing communities have received their initial vaccine shot as of early March, and over 90% of those have received their second injection. We have made significant progress toward the immunization path and are further encouraged that, as of this report, all of our 71 communities have held a vaccination clinic for residents and staff.

According to the American Seniors Housing Association, CNL Healthcare Properties remains one of the nation's largest owners of seniors living communities. We are geographically diversified with 71 newer, private-pay seniors housing communities in 26 states. Our current portfolio also includes one vacant land parcel adjacent to one of our seniors housing communities, plus one remaining specialty hospital in Texas.

MorningStar of Boise
Boise, Idaho

HarborChase of Shorewood
Shorewood, Wisconsin

"We were very pleased to be able to maintain our pre-pandemic shareholder distribution rate, reflecting the company's strong financial condition, liquidity and financial flexibility."

Summary of Financial and Operational Performance

CNL Healthcare Properties' portfolio of 73 real estate assets represents an investment value of approximately $1.8 billion, including our joint venture interests, as of this report's date. Together with results from the properties held for sale that were not classified as discontinued operations, for the year ended Dec. 31, 2020, we earned $26.3 million in rental income and related revenues compared to $37.8 million for the year ended Dec. 31, 2019. We also earned $280.9 million in resident and service fees from our managed seniors housing properties, compared to $288.3 million for the year ended Dec. 31, 2019. Our leased assets, which represent approximately 25% of our portfolio, have an average remaining lease term of 4.5 years based on annualized current base rents.

We were very intentional to maintain a strong balance sheet throughout the year and were fortunate to be in the position to do so, pre-pandemic. In 2020, we lowered our debt level further through the strategic retirement of approximately $40 million in debt obligations and the repayment of $80 million outstanding under our revolving credit facility. At year end, our total debt-to-asset ratio was a conservative 32.3%, based on in-place investment value, and our unhedged floating interest rate exposure was an extremely low 6.7% of total outstanding debt.

Funds from Operations (FFO) per share was $0.31 in 2020, compared with $0.37 for 2019. We reported Modified Funds from Operations (MFFO) per share in 2020 of $0.34, compared with $0.40 in 2019. FFO and MFFO are non-GAAP (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 regular practice, we conducted our eighth year-end estimated per share net asset valuation (NAV) exercise based on our portfolio and balance sheet as of Dec. 31, 2020. To conduct this valuation, we again engaged Robert A. Stanger & Co. Inc., a leading independent firm, to provide analyses and appraisals to assist our board of directors and its valuation committee in determining an updated estimated NAV. Other than an adjustment for estimated property transaction costs described below, the process for determining the NAV followed the company's internal valuation policy and certain methodologies prescribed by the Institute for Portfolio Alternatives (IPA), our leading industry association.

In March 2021, our board of directors announced an estimated NAV per share of $7.38 as of Dec. 31, 2020, for our common stock. Our most recent NAV reflects a deduction for our current projection of property-level transaction costs presuming a hypothetical orderly liquidation of the balance of our assets, plus the market-driven reduction in year-over-year appraised real estate values. The company began deducting the hypothetical transaction costs from the estimated NAV in 2018 once we announced the exploration of strategic alternatives to provide liquidity to shareholders. The pandemic's economic effects have been palpable and widespread, negatively impacting many industries, and certainly including the seniors housing segment. Across the sector, occupancies and property cash flows have drifted down meaningfully. For the company, we experienced a 4.7% decline in the aggregate appraised asset value of the company's assets when compared to the appraised values for the prior year's estimated NAV.

Raider Ranch
Lubbock, Texas

MorningStar of Billings
Billings, Montana

"We believe we are in a good position to weather the continued storm, given our unwavering focus and full commitment to the business' strategic management during this challenging time."

While our 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.

Our distribution amount in the fourth quarter was $0.0512 ($0.2048 annually) per share, which was unchanged throughout the year despite the pandemic, reflecting our financial position and relative confidence as we advanced through the year. For the year ended Dec. 31, 2020, we declared and paid cash distributions of $35.6 million. Our board of directors will continue its active evaluation of the distribution rate and adjust it as necessary, based on actual performance and forward-looking business expectations.

Looking Ahead

The full impact of COVID-19 on our society, economy and thus, CNL Healthcare Properties' financial condition and operations, cannot fully be predicted as it remains subject to the timing and speed of economic recovery. Yet, there are glimmers of hope on the horizon with both approval and broadening administration of several vaccines. Some economists and U.S. public health officials have forecast that daily life could approach normalcy and support economic recovery later this year — should vaccination and other targets be met.

Notwithstanding, we believe we are in a good position to weather the continued storm, given our unwavering focus and full commitment to the business' strategic management during this challenging time, and our maintenance of a strong financial condition.

Given the pandemic-related priorities noted earlier in this letter, we were naturally forced to shift our focus away from the pursuit of larger strategic initiatives to provide further liquidity to our shareholders. However, we and our board and its special committee continue to carefully study market information and potential options with the goal of identifying and executing liquidity alternatives that are judged to be in our shareholders' best interests.

As always, thank you for the opportunity to be stewards of your investment in CNL Healthcare Properties. We look forward to bluer skies ahead.

James M. Seneff
Chairman of the Board

Stephen H. Mauldin
CEO and President

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, 2020

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)

Maryland **(State or other jurisdiction of incorporation or organization)**	**27-2876363** **(I.R.S. Employer Identification No.)**
CNL Center at City Commons **450 South Orange Avenue** **Orlando, Florida** **(Address of principal executive offices)**	**32801** **(Zip Code)**

Registrant's telephone number, including area code (407) 650-1000

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	N/A	N/A

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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 $7.81 net asset value (“NAV”) per share as of June 30, 2020 (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 15, 2021 was 173,960,540.

DOCUMENTS INCORPORATED BY REFERENCE

None

Contents

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, 2020 ("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 elected to be taxed as a REIT for U.S. federal income tax purposes. We have been and intend to continue 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.

We completed our public offerings ("Offerings") and 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 2020, we extended the advisory agreement with our Advisor through June 2021. 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 10. Related Party Arrangements."

Seniors Housing Investment Focus and Strategy

We are currently invested in a geographically diversified portfolio of 71 seniors housing properties. The types of seniors housing properties that we own include independent and assisted living facilities, continuing care retirement communities and Alzheimer's/memory care facilities. We had previously invested in 70 properties which included our MOB/Healthcare Portfolio (consisting of 63 medical office buildings, acute care and post-acute care properties) and seven skilled nursing facilities. As described below under "Possible Strategic Alternatives," during the last half of 2018, we entered into a plan to sell these 70 properties, sold 69 properties through January 2021 and in late 2020, discontinued marketing efforts on the remaining acute care property. The medical office properties that we sold included medical office buildings, specialty medical and diagnostic service facilities, surgery centers, outpatient rehabilitation facilities, and other facilities designed for clinical services. The acute care facilities that we sold included specialty surgical hospitals and the post-acute care facilities that we sold included skilled nursing facilities and inpatient rehabilitative facilities. We viewed, managed and evaluated 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 of December 31, 2020, our investment portfolio consisted of interests in 74 properties, comprising of 71 senior housing communities, one acute care hospital, one vacant land parcel and one acute care hospital classified as held for sale (which was sold in January 2021). Our strategy is to manage our seniors housing portfolio in a way that will allow us to provide stockholders with cash distributions; preserve, protect and return stockholders' invested capital; and explore liquidity opportunities. The exploration of liquidity opportunities, 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, as further described below under "Possible Strategic Alternatives".

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 (ranging from 2019 through January 2021), and the Hurst Specialty Hospital, the remaining acute care property still in our portfolio, is leased on a triple-net basis to a third-party tenant. Refer to Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations–Liquidity and Capital Resources–Tenant Financial Difficulties" for additional information on the remaining acute care property. In addition, most of our investments are wholly owned, although, to a lesser extent, we invested through partnerships with other entities where we believed it was appropriate and beneficial.

COVID-19

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus ("COVID-19") as a pandemic around the globe. Various of the states in which we own properties have reacted by, among other things, instituting quarantines in many business sectors and instituting move-in restrictions to seniors housing communities. Average occupancy began to decline starting in the second half of March and has continued to trend lower as a result of regulatory or self-imposed move-in restrictions, intensified screening and other measures enacted at our communities to address the spread of COVID-19. While some of these restrictions have been relaxed or phased out, many of these or similar restrictions remain in place or continue to be mandated. We have and expect to continue to experience a negative impact in occupancy rates and resident fees and revenues during the COVID-19 pandemic. The pandemic has also resulted in the incurrence of costs related to disease control and containment. Our seniors housing communities have and continue to incur COVID-19 related operating expenses, including higher labor costs, costs to obtain personal protective equipment and other costs related to disease control and containment. We expect to continue incurring higher operating expenses during the COVID-19 pandemic. The COVID-19 pandemic has resulted in a decline in occupancy, resident fees and revenues, and coupled with an increase in COVID-19 operating expenses, has had a negative impact on results of operations and cash flow from operations at our communities. We continue to proactively work closely with our tenants and third-party operators to monitor the impact from COVID-19 on the operations of our seniors housing communities. Refer to Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – COVID-19" for further discussions on the impact of the COVID-19 pandemic on our financial position and results of operations.

The full impact of COVID-19 on our financial condition and results of operations is uncertain and cannot be predicted at the current time as it depends on several factors beyond our control including, but not limited to (i) the uncertainty around the severity and duration of the outbreak, (ii) the effectiveness of the United States public health response, (iii) the pandemic's impact on the U.S. and global economies, (iv) the timing, scope and effectiveness of additional governmental responses to the pandemic and (v) the timing and speed of economic recovery, including the availability of a treatment or vaccination for 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"). Since 2018, the Special Committee has engaged KeyBanc Capital Markets Inc. to act as its financial advisor 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 medical office buildings ("MOBs"), five post-acute care facilities and five acute care hospitals across the US. We had also committed to a plan to sell our seven skilled nursing facilities and as of December 31, 2018, we had a total of 70 properties classified as held for sale.

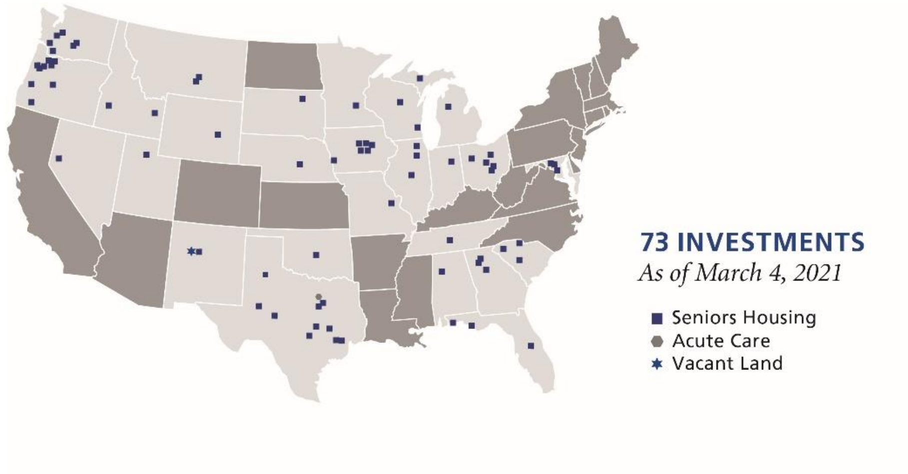
In April 2019, we completed the sale of four post-acute care properties ("IRF Sale") to an unrelated third party. In May 2019, we completed the sale of 55 medical office buildings and related properties ("MOB Sale"), to a subsidiary of Welltower Inc. and received approximately $1,321.2 million in net 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.

During the last half of 2019 and through December 31, 2020, we sold nine additional properties (two properties from our MOB/Healthcare Portfolio and seven skilled nursing facilities) to unrelated third parties. We received aggregate net sales proceeds of $121.1 million relating to these nine properties and retained the net sales proceeds for corporate purposes. In September 2020, we decided to discontinue marketing for sale our Hurst Specialty Hospital, which we had previously classified as assets held for sale, due to financial difficulties experienced by the tenant of this property. As of December 31, 2020, we had one acute care property classified as held for sale and had entered into a purchase and sale agreement with the existing tenant of this acute care property. In January 2021, we closed on the sale of this acute care property, received net sales proceeds of $7.4 million and retained these proceeds for corporate purposes.

As of March 4, 2021, we had completed the sale of the 69 properties that we planned to sell as part of executing under our Possible Strategic Alternatives. In light of the market disruption in the seniors housing sector from COVID-19, we retained net sales proceeds from properties sold in the last half of 2019 through the first quarter of 2021 as we are focused on maintaining balance sheet strength and liquidity to enhance financial flexibility. In addition, we shifted our focus away from the pursuit of larger strategic alternatives to provide further liquidity to our shareholders due to the market and industry disruptions from COVID-19 during the year ended December 31, 2020. However, our Special Committee continues to work with our financial advisor to carefully study market data and potential options to determine suitable liquidity alternatives that are in the best interests of all of our shareholders.

Portfolio Overview

We believe demographic trends and compelling supply and demand indicators presented a strong case for an investment focus on seniors housing real estate assets. Our healthcare investment portfolio is geographically diversified with properties in 26 states. The map below shows our current property allocations across geographic regions as of March 4, 2021:



The following table summarizes our remaining healthcare portfolio by asset class and investment structure as of March 4, 2021:

Type of Investment	Number of Investments	Amount of Investments (in millions)	Percentage of Total Investments
Consolidated investments:			
Seniors housing leased [(1)]	15	$ 311.0	17.3%
Seniors housing managed [(2)]	51	1,427.8	79.3%
Seniors housing unimproved land	1	1.1	0.1%
Acute care leased [(1)]	1	29.5	1.6%
Unconsolidated investments:			
Seniors housing managed [(3)]	5	31.1	1.7%
	73	$ 1,800.5	100%

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 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.

Refer to Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for information on how we evaluate our seniors housing portfolio, our significant tenants and operators as well as our lease expirations.

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.

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 covered and may in the future, 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. We will continue to monitor the extent of the impact of the disruptions from the COVID-19 pandemic on our cash flows from operations in determining the level of distributions going forward. Refer to Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a table that 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, 2020, 2019 and 2018.

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. Refer to Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations–Sources of Liquidity and Capital Resources–Borrowings" for further discussions of our borrowings, repayments and aggregate debt leverage ratios.

Competition

Our tenants and operators compete with other properties that provide comparable services in their local markets. Tenants and operators compete for residents based on a variety of factors including, but not limited to: quality of care, reputation, location, service offerings, staff and price.

Human Capital

We are externally managed and as such we do not have any employees. All of our executive officers are employees of the Advisor or one of its affiliates.

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.

On March 27, 2020, legislation intended to support the economy during the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), was signed into law. The CARES Act made technical corrections, or temporary modifications, to certain of the provisions of the Tax Act, including, without limitation, the provisions of the Tax Act concerning NOLs and interest expense deductions described above. The CARES Act repealed the 80% NOL limitation for carryforwards to taxable years beginning before January 1, 2021. In addition, the CARES Act allowed a five-year carryback for NOLs arising in 2018, 2019, or 2020. However, the carryback allowance does not apply to the NOLs of REITs. The CARES Act increased the 30% limitation on business interest deductions to 50% for taxable years beginning in 2019 or 2020 (with an allocation election required for partnerships for 2019) and permitted an entity to elect to use its 2019 adjusted taxable income to calculate the applicable limitation for its 2020 taxable year.

The individual and collective impact of the Tax Act and the CARES 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 and the CARES Act, which may affect REITs and their stockholders, given the complexity of these new laws, 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, as modified by the CARES 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, 2020 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. However, the CARES Act modifies the foregoing rule by allowing a five-year carryback for NOLs arising in 2018, 2019, or 2020. The five-year carryback allowance applies to the NOLs of TRSs, but does not apply to the NOLs of REITs.

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. The CARES Act generally increases the 30% adjusted taxable income limitation to 50% for 2019 and 2020. "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 limitation based on adjusted taxable income 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. Under guidance issued by the U.S. Department of the Treasury, our leasing, management and operation of our healthcare 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 foregoing limitation on deductibility of net interest expense. 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 the 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, 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.

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.

With regard to rental income, our leases generally are, and we expect them generally to continue to 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. The services to be performed with respect to our real properties generally are, and we expect them generally to continue to 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 take 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 use the accrual method of accounting and 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 continue to 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 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. 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, that contractor or any Person related to that contractor is actively engaged in the trade or business of operating qualified healthcare properties 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, the TRS receiving the revenues from the operation of the qualified healthcare property, 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 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 ADS. 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. 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. 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

The events and consequences discussed in these risk factors could, in circumstances where the Company may not be able to accurately predict, recognize or control, have a material adverse effect on the Company's business, growth, reputation, prospects, financial condition, operating results, cash flows, liquidity, and ability to pay distributions.

Risks Related to The Company's Business

The ongoing COVID-19 pandemic may have a material adverse effect on the Company's business, results of operations and financial condition.

The Company is unable to accurately predict the full impact that the COVID-9 pandemic will have on its results from operations, financial condition, liquidity and cash flows due to numerous factors that are not within the Company's control, including the duration and severity of the outbreak, public health measures, such as business closures and stay-at-home orders, and other actions taken by governments and business in response to the pandemic, the availability of federal, state, local or non-U.S. funding programs, general economic disruption and uncertainty in key markets and financial market volatility, and the impact of the COVID-19 pandemic on general macroeconomic conditions and the pace of recovery when the pandemic subsides. The COVID-19 pandemic has resulted in a decline in occupancy, resident fees, and revenues, and coupled with an increase in COVID-19 operating expenses, has had a negative impact on results of operations and cash flow from operations at the Company's senior communities.

The Company is currently invested in a geographically diversified portfolio of seniors housing properties. As of December 31, 2020, the Company's investment portfolio consisted of interests in 74 properties, comprising of 71 senior housing communities, one acute care hospital, one vacant land parcel and one acute care hospital classified as held for sale. Of the Company's 71 seniors housing communities, 15 properties were leased to third party tenants under NNN leases and the remaining 56 properties were managed through third party operators, including five seniors housing communities owned through the Company's unconsolidated joint venture.

The COVID-19 pandemic has subjected the Company's business, operations, and financial condition to a number of risks, including, but not limited to, those discussed below:

- *Risks Related to Revenue*: The Company's revenues and its operators' revenues are dependent on occupancy. The Company's seniors housing communities have experienced a decline in occupancy during COVID-19. In addition to the impact of increases in mortality rates on occupancy of the Company's seniors housing communities, the ongoing COVID-19 pandemic has prevented prospective occupants and their families from visiting the Company's facilities and limited the ability of new occupants to move into the Company's facilities due to heightened move-in criteria and screening. Although the ongoing impact of the pandemic on occupancy remain uncertain, occupancy of the Company's seniors housing communities and properties leased to the Company's tenants on a NNN or modified gross basis could further decrease. Such a decrease could affect the Company's net operating income and the ability of the Company's tenants to make contractual payments.

- *Risks Related to Operator and Tenant Financial Condition:* In addition to the risk of decreased revenue from tenant and operator payments, the impact of the COVID-19 pandemic creates a heightened risk of tenant, operator, borrower, manager or other obligor bankruptcy or insolvency due to factors such as decreased occupancy, increased health and safety and labor expenses or litigation resulting from developments related to the COVID-19 pandemic. Although the Company's operating lease agreements provide it with the right to evict a tenant, demand immediate payment of rent and exercise other remedies, the bankruptcy and insolvency laws afford certain rights to a party that has filed for bankruptcy or reorganization. A tenant, operator, borrower, manager, or other obligor in bankruptcy or subject to insolvency proceedings may be able to limit or delay the Company's ability to collect unpaid rent and to exercise other rights and remedies. In addition, if a lease is rejected in a tenant bankruptcy, the Company's claim against the tenant may be limited by applicable provisions of the bankruptcy law. The Company may be required to fund certain expenses (e.g., real estate taxes and maintenance) to preserve the value of an investment property, avoid the imposition of liens on a property and/or transition a property to a new tenant. If the Company has terminated its lease with a tenant, the Company may not be able to find another tenant under current conditions due to the industry and macroeconomic effects of the COVID-19 pandemic. If the Company cannot transition a leased property to a new tenant due to the effects of the COVID-19 pandemic or for other reasons, the Company may take possession of that property, which may expose it to certain successor liabilities. Publicity about the operator's financial condition and insolvency proceedings, particularly in light of ongoing publicity related to the COVID-19 pandemic, may also negatively impact their and the Company's reputations, decreasing customer demand and revenues. Should such events occur, the Company's revenue and operating cash flow may be adversely affected.

- *Risks Related to Operations:* 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. Across all of the Company properties, the Company and its operators have incurred increased operational costs as a result of the introduction of public health measures and other regulations affecting the Company's properties and its operations, as well additional health and safety measures adopted by the Company and its operators related to the COVID-19 pandemic, including increases in labor and property cleaning expenses and expenditures related to Company's efforts to procure PPE and supplies on behalf of its operators. Such operational costs may increase in the future based on the duration and severity of the pandemic or the introduction of additional public health regulations. Operators and tenants are also subject to risks arising from the unique pressures on seniors housing employees during the COVID-19 pandemic. As a result of difficult conditions and stresses related to the COVID-19 pandemic, employee morale and productivity may suffer and additional pay, such as hazard pay, may not be sufficient to retain key operator and tenant employees. In addition, the Company's operations or those of its operators or tenants may be adversely impacted if a significant number of the Company's employees or those of its operators or tenants, contract COVID-19. Although the Company continues to undertake extensive efforts to ensure the safety of the Company's properties, employees and residents and to provide operator support in this regard, the impact of the COVID-19 pandemic on the Company's facilities could result in additional operational costs and reputational and litigation risk to the Company and its operators. As a result of the COVID-19 pandemic, operator and tenant cost of insurance is expected to increase and such insurance may not cover certain claims related to COVID-19. The Company's exposure to COVID-19 related litigation risk may be increased if the operators or tenants of the relevant facilities are subject to bankruptcy or insolvency. In addition, the Company is facing increased operational challenges and costs resulting from logistical challenges such as supply chain interruptions, business closures and restrictions on the movement of people. In response to stay-at-home orders and to support the health and well-being of the Company's employees, the large majority of its employees are currently working remotely. The effects of such work arrangements for an extended period of time could impact employee productivity and morale and introduce additional operational risk, including but not limited to cybersecurity risks.

- *Risks Related to Liquidity:* The COVID-19 pandemic and related public health measures implemented by governments worldwide have had severe global macroeconomic impacts and has resulted in significant financial market volatility. An extended period of volatility or a downturn in the financial markets could result in increased cost of capital. In addition, in order to maintain the Company's REIT status, the Company may be unable to participate in any government stimulus program or lending facility that would limit the Company's ability to pay distributions. If the Company's access to capital is restricted or its borrowing costs increase as a result of developments in financial markets relating to the pandemic, the Company's operations and financial condition could be adversely impacted. In addition, a prolonged period of decreased revenue could adversely affect the Company's financial condition and could adversely affect the Company's cost of capital, liquidity, competitive position, and access to capital markets.

- *Risks Related to Distributions:* The impacts of COVID-19 pandemic on the Company's results of operations, liquidity and financial condition could adversely affect its ability to pay distributions at expected levels or at all. All distributions are made at the discretion of the Company's board of directors in accordance with Maryland law and depend on the Company's earnings, financial condition, debt and equity capital available to the Company, its expectation of future capital requirements and operating performance, restrictive covenants in the Company's financial and other contractual arrangements, maintenance of the Company's REIT qualification, restrictions under Maryland law and other factors as the Board of Directors may deem relevant from time to time. The Board of Directors will continue to assess the Company's distribution rate on an ongoing basis, as the COVID-19 pandemic and related market conditions and the Company's financial position continue to evolve.

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

In April 2018, the Company's board of directors formed a special committee consisting solely of independent directors ("Special Committee") to consider possible strategic alternatives to provide liquidity to the Company's stockholders. In connection with its consideration of Possible Strategic Alternatives, the board of directors suspended both the Company's Reinvestment Plan ln and Redemption Plan effective July 11, 2018 and committed to a plan to sell 70 properties consisting of medical office buildings, acute-care properties, post-acute care properties and skilled nursing facilities.

Between April 2019 and December 2020, the Company sold 68 of these properties resulting in net proceeds to the Company of approximately $1,442.3 million. The Company used the net sales proceeds to: (1) repay indebtedness secured by or allocated to the sold properties; (2) strategically rebalance other corporate borrowings; (3) make a special cash distribution of $347.9 million to stockholders and (4) for other corporate purposes. As of December 31, 2020, the Company's investment portfolio consisted of interests in 74 properties, comprising of 71 senior housing communities, one acute care hospital, one vacant land parcel and one acute care hospital classified as held for sale.

The board's focus and work relative to execution of Possible Strategic Alternatives to provide further liquidity to stockholders has been paused in light of market and industry disruptions from the COVID-19 pandemic. Nonetheless, our Special Committee continues to actively work with our financial advisor to identify potential strategic options, which may include other transactions to provide stockholders with liquidity for their investment. The COVID-19 pandemic and general macroeconomic conditions have adversely affected the real estate market for properties like those currently owned by the Company. Valuations of properties have declined as a result of changes in operating income, lower estimates of earnings growth, and an expansion of capitalization rates. As a result, the Company may have to own and operate its remaining properties if and until market conditions improve. Even if the Company's board of directors determines to pursue a liquidity event, 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. 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.

If the Company does not or is unable to 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 indeterminate 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.

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, 2020. 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, 2020. 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. In addition, reduced occupancy levels at the Company's properties, as well as disruptions in the financial markets or deteriorating economic conditions that differ from what the Company anticipated at the time the Company acquired the properties could result in decreased values for such properties. As a result, the value of the Company's real estate investments could decrease below the amounts the Company paid for the investments and also adversely affect NAV.

The Company's valuation procedures and its NAV are not subject to accounting principles generally accepted in the United States, or GAAP, and will not be subject to independent audit. The Company's NAV may differ from equity (net assets) reflected on the Company's audited financial statements, even if the Company is required to adopt a fair value basis of accounting for GAAP financial statement purposes.

Seniors housing properties in the Company's portfolio may not be readily adaptable to other uses.

Seniors housing properties 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.

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.

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 continue 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 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 as 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; or
- tenants will not default under or terminate their leases.

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:

- Cash available for distributions may decrease if the Company is required to spend money to correct defects or to make improvements to properties.

- Cash available for distributions may decrease if the assets the Company acquires have lower yields than expected.

- 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.

- 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.

- Because 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.

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 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 Annual Report, 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.

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 refers 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.

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.

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.

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

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 stockhold*ers.*

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;
- property sales, which may entitle the Advisor to disposition fees;
- 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;

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.

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.

Financing Related Risks

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.

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.

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.

Regulation

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.

In addition, 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.

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.

Legislation and government regulation may adversely affect the operations of the Company's properties.

Certain of the operations conducted on the Company's properties 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 Company. 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.

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.

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'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 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.

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 then 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.

If the Company's assets are deemed "plan assets" for the purposes of the Employee Retirement Income Security Act ("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.

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 that stockholders do not believe are in their best interest.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2020, we had investments in 74 real estate investment properties, including the one property classified as held for sale, as described in Item 1. "Business—Possible Strategic Alternatives", which was subsequently sold in January 2021, and including the five real estate properties owned through an unconsolidated joint venture. The following tables set forth details on our consolidated healthcare investment portfolio by asset class:

Name and Location	**Structure**	**Date Acquired**	**Encumbrance at 12/31/2020 (in millions)**	**Investment Amount** (in millions)
Acute Care (Leased)				
Doctors Specialty Hospital [1] Leawood, KS ("Kansas City")	Modified Lease	8/16/2013	$ —	$ 10.0
Hurst Specialty Hospital Hurst, TX ("Dallas/Fort Worth")	Triple-net Lease	8/15/2014	—	29.5
Seniors Housing (Leased)				
Primrose Retirement Community of Casper Casper, WY	Triple-net Lease	2/16/2012	10.7	19.0
Sweetwater Retirement Community Billings, MT	Triple-net Lease	2/16/2012	9.3	16.3
Primrose Retirement Community of Grand Island Grand Island, NE	Triple-net Lease	2/16/2012	7.5	13.4
Primrose Retirement Community of Mansfield Mansfield, OH	Triple-net Lease	2/16/2012	10.3	18.3
Primrose Retirement Community of Marion Marion, OH	Triple-net Lease	2/16/2012	8.5	17.9
Primrose Retirement Community of Lima Lima, OH	Triple-net Lease	12/19/2012	—	18.6
Primrose Retirement Community of Zanesville Zanesville, OH ("Columbus")	Triple-net Lease	12/19/2012	—	19.1
Primrose Retirement Community of Decatur Decatur, IL	Triple-net Lease	12/19/2012	—	18.2
Primrose Retirement Community of Council Bluffs Council Bluffs, IA ("Omaha")	Triple-net Lease	12/19/2012	—	12.9
Primrose Retirement Community Cottages Aberdeen, SD	Triple-net Lease	12/19/2012	—	4.3
Primrose Retirement Community of Anderson Anderson, IN ("Muncie")	Triple-net Lease	5/29/2015	—	21.1
Primrose Retirement Community of Lancaster Lancaster, OH ("Columbus")	Triple-net Lease	5/29/2015	—	25.7
Primrose Retirement Community of Wausau Wausau, WI ("Green Bay")	Triple-net Lease	5/29/2015	—	20.3
Wellmore of Tega Cay Tega Cay, SC ("Charlotte")	Triple-net Lease	2/7/2014	—	32.2
Wellmore of Lexington Lexington, SC ("Columbia")	Triple-net Lease	9/14/2015	—	53.7
Senior Housing (Managed)				
Brookridge Heights Assisted Living & Memory Care Marquette, MI	Managed	12/21/2012	11.5	18.5
Curry House Assisted Living & Memory Care Cadillac, MI	Managed	12/21/2012	6.5	13.5
Symphony Manor Baltimore, MD	Managed	12/21/2012	13.0	24.0

Name and Location	Structure	Date Acquired	Encumbrance at 12/31/2020 (in millions)	Investment Amount (in millions)
Woodholme Gardens Assisted Living & Memory Care Pikesville, MD ("Baltimore")	Managed	12/21/2012	5.8	17.1
Tranquillity at Fredericktowne Frederick, MD	Managed	12/21/2012	19.1	23.3
HarborChase of Villages Crossing Lady Lake, FL (“The Villages”)	Managed	8/29/2012	—	19.7
HarborChase of Jasper Jasper, AL	Managed	8/1/2013	—	7.3
HarborChase of Plainfield Plainfield, IL	Managed	3/282014	—	26.5
HarborChase of Shorewood Shorewood, WI (“Milwaukee”)	Managed	7/8/2014	—	23.8
Raider Ranch Lubbock, TX	Managed	8/29/2013	—	72.0
Town Village Oklahoma City, OK	Managed	8/29/2013	—	23.7
MorningStar of Billings Billings, MT	Managed	12/2/2013	17.9	48.3
MorningStar of Boise Boise, ID	Managed	12/2/2013	19.2	40.0
MorningStar of Idaho Falls Idaho Falls, ID	Managed	12/2/2013	16.0	44.4
MorningStar of Sparks Sparks, NV ("Reno")	Managed	12/2/2013	21.3	55.2
Prestige Senior Living Arbor Place Medford, OR	Managed	12/2/2013	7.5	15.8
Prestige Senior Living Beaverton Hills Beaverton, OR ("Portland")	Managed	12/2/2013	8.2	12.9
Prestige Senior Living Five Rivers Tillamook, OR	Managed	12/2/2013	7.0	16.7
Prestige Senior Living High Desert Bend, OR	Managed	12/2/2013	7.2	13.6
Prestige Senior Living Huntington Terrace Gresham, OR ("Portland")	Managed	12/2/2013	9.2	15.0
Prestige Senior Living Orchard Heights Salem, OR	Managed	12/2/2013	11.0	17.8
Prestige Senior Living Riverwood Tualatin, OR ("Portland")	Managed	12/2/2013	4.2	9.7
Prestige Senior Living Southern Hills Salem, OR	Managed	12/2/2013	6.9	12.9
Prestige Senior Living Auburn Meadows Auburn, WA ("Seattle")	Managed	2/3/2014	9.6	21.9
Prestige Senior Living Bridgewood Vancouver, WA ("Portland")	Managed	2/3/2014	12.1	22.1
Prestige Senior Living Monticello Park Longview, WA	Managed	2/3/2014	16.1	27.4
Prestige Senior Living Rosemont Yelm, WA	Managed	2/3/2014	8.5	16.9
Prestige Senior Living West Hills Corvallis, OR	Managed	3/3/2014	8.0	15.0
Isle at Cedar Ridge Cedar Park, TX ("Austin")	Managed	2/28/2014	—	22.0

Name and Location	Structure	Date Acquired	Encumbrance at 12/31/2020 (in millions)	Investment Amount (in millions)
Legacy Ranch Alzheimer's Special Care Center Midland, TX	Managed	3/28/2014	—	12.0
The Springs Alzheimer's Special Care Center San Angelo, TX	Managed	3/28/2014	—	10.9
Isle at Watercrest - Bryan Bryan, TX	Managed	4/21/2014	—	50.4
Isle at Watercrest - Mansfield Mansfield, TX ("Dallas/Fort Worth")	Managed	5/5/2014	—	31.3
Watercrest at Mansfield Mansfield, TX ("Dallas/Fort Worth")	Managed	6/30/2014	24.1	49.0
Watercrest at Katy (2) Lubbock, TX	Managed	6/27/2014	21.3	37.2
Fairfield Village of Layton Layton, UT ("Salt Lake City")	Managed	11/20/2014	—	68.0
Fieldstone Memory Care Yakima, WA	Managed	3/31/2015	—	12.4
Superior Residences of Panama City Panama City Beach, FL	Managed	7/15/2015	—	20.0
Parc at Duluth Duluth, GA ("Atlanta")	Managed	7/31/2015	—	52.8
Parc at Piedmont Marietta, GA ("Atlanta")	Managed	7/31/2015	—	50.8
The Pavilion at Great Hills Austin, TX	Managed	7/31/2015	—	35.0
The Hampton at Meadows Place Meadows Place, TX ("Houston")	Managed	7/31/2015	—	28.4
The Beacon at Gulf Breeze Gulf Breeze, FL ("Pensacola")	Managed	7/31/2015	—	28.0
Waterstone on Augusta Greenville, SC	Managed	8/31/2015	—	26.8
Palmilla Senior Living Albuquerque, NM	Managed	9/30/2015	—	47.6
Cedar Lake Assisted Living and Memory Care Lake Zurich, IL ("Chicago")	Managed	9/30/2015	—	30.0
Fieldstone at Pear Orchard (3) Yakima, WA	Managed	10/15/2015	—	14.3
The Shores of Lake Phalen Maplewood, MN ("St. Paul")	Managed	11/10/2015	—	29.2
The Dogwood Forest of Grayson Grayson, GA	Managed	11/24/2015	—	25.7
Park Place Senior Living at WingHaven 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
			$ 337.5	$ 1,779.4

FOOTNOTES:

(1) Property was classified as held for sale as of December 31, 2020 and sold in January 2021.

(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.

As of December 31, 2020, we owned five real estate properties through an unconsolidated joint venture in which we hold a 75% interest ("Windsor Manor JV"). The following tables set forth details on the property holdings of our investments in the unconsolidated Windsor Manor JV:

Name	Structure	Date Acquired	Encumbrance at 12/31/20 (in millions)	Investment Amount (in millions)
Seniors Housing Managed				
Windsor Manor of Vinton Vinton, IA	Managed	8/31/2012	$ 2.9	$ 5.8
Windsor Manor of Webster City Webster City, IA	Managed	8/31/2012	2.5	6.8
Windsor Manor of Nevada Nevada, IA	Managed	8/31/2012	5.8	6.3
Windsor Manor of Indianola Indianola, IA	Managed	4/2/2013	2.2	5.7
Windsor Manor of Grinnell Grinnell, IA	Managed	4/2/2013	5.6	6.5
			$ 19.0	$ 31.1

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, 2020, our board of directors initiated a process to estimate the Company's NAV per share as of December 31, 2020 ("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 10, 2021, our board of directors accepted the recommendation of our Valuation Committee and approved an estimated NAV as of December 31, 2020 of $7.38 per share, which includes deductions for estimated transaction costs (the "2020 NAV"). The Company previously announced an estimated NAV of $7.81 per share as of December 31, 2019 (the "2019" NAV"). The Company also previously announced an estimated NAV of $10.01 per share as of December 31, 2018 (adjusted to $7.99 per share after the declaration of a $2.00 per share, special cash distribution and $0.02 of adjustments relating to closing costs from sales of certain of the Company's assets) (the "2018 NAV").

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 11, 2021.

Stockholder Information

As of December 31, 2020, we had 45,951 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 in July 2018, 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 the July 2018 suspension of the Redemption Plan. 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 (4.4 million shares) 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 year ended December 31, 2018, we received requests for the redemption of common stock under our Redemption Plan of approximately 4.4 million shares, of which, 2.8 million shares were approved for redemption at an average price of $10.14 for a total of approximately $28.4 million.

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, FFO, MFFO and 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", as well as expected future long-term cash flows, FFO and MFFO;
- the impact of the disruptions from the COVID-19 pandemic on our cash flows from operations in determining the level of distributions going forward
- 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–Liquidity and Capital Resources–Uses of Capital Resources–Distributions" 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, 2020, 2019 and 2018.

The tax composition of our distributions declared for years ended December 31, 2020, 2019 and 2018 were as follows:

	Years Ended December 31,		
	2020	**2019**	**2018**
Ordinary income	21.88%	0.0%	0.0%
Capital gain	0.62%	42.85%	0.0%
Unrecaptured Sec. 1250 gain	11.15%	20.10%	0.0%
Return of capital	66.35%	37.05%	100.0%

Due to a variety of factors, the characterization of distributions declared for the year ended December 31, 2020 may not be indicative of the characterization of distributions that may be expected for the year ending December 31, 2021. 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, 2020, 2019 and 2018 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, 2020, 2019 and 2018, there were approximately 482,000 shares, 343,000 shares and 192,000 shares transferred between investors, respectively, at an average sales price per share of approximately $4.73, $6.37 and $7.60, 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

Reserved

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

Overview

CNL Healthcare Properties, Inc. is a Maryland corporation that elected to be taxed as a REIT for U.S. federal income tax purposes. We have and intend to continue 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. The discussion of our financial condition and results of operations for the year ended December 31, 2018 included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2019 as filed on March 26, 2020 is incorporated by reference herein.

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 2020, we extended the advisory agreement with our Advisor through June 2021. For additional information on our Advisor, its affiliates or other related parties, as well as the fees and reimbursements we pay, see Note 10. "Related Party Arrangements."

We are currently invested in a geographically diversified portfolio of 71 seniors housing properties. The types of seniors housing properties that we own include independent and assisted living facilities, continuing care retirement communities and Alzheimer's/memory care facilities. We had previously invested in 70 properties which included our MOB/Healthcare Portfolio (consisting of 63 medical office buildings, acute care and post-acute care properties) and seven skilled nursing facilities. As described below under "Possible Strategic Alternatives," during the last half of 2018, we entered into a plan to sell these 70 properties, sold 69 properties through January 2021 and in late 2020, discontinued marketing efforts on the remaining acute care property. The medical office properties that we sold included medical office buildings, specialty medical and diagnostic service facilities, surgery centers, outpatient rehabilitation facilities, and other facilities designed for clinical services. The acute care facilities that we sold included specialty surgical hospitals and the post-acute care facilities that we sold included skilled nursing facilities and inpatient rehabilitative facilities. We viewed, managed and evaluated 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 of December 31, 2020, our healthcare investment portfolio consisted of interests in 74 properties, comprising of 71 senior housing communities, one acute care property, one vacant land parcel and one acute care hospital classified as held for sale (which we subsequently sold in January 2021). Of our properties held as of December 31, 2020, five of our 71 seniors housing properties were owned through an unconsolidated joint venture. 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, 2020, see Item 2. "Properties."

COVID-19

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus ("COVID-19") as a pandemic around the globe. Various states in which we own properties have reacted by, among other things, instituting quarantines in many business sectors and instituting move-in restrictions to seniors housing communities. Average occupancy began to decline starting in the second half of March 2020 and has continued to trend lower as a result of regulatory or self-imposed move-in restrictions, intensified screening and other measures enacted at our communities to address the spread of COVID-19. While some of these restrictions have been relaxed or phased out, many of these or similar restrictions remain in place or continue to be mandated. We have and expect to continue to experience a negative impact in occupancy rates and resident fees and revenues during the COVID-19 pandemic. The pandemic has also resulted in the incurrence of costs related to disease control and containment. Our seniors housing communities have and continue to incur COVID-19 related operating expenses, including higher labor costs, costs to obtain personal protective equipment and other costs related to disease control and containment. We expect to continue incurring higher operating expenses during the COVID-19 pandemic. The COVID-19 pandemic has resulted in a decline in occupancy, resident fees and revenues, and coupled with an increase in COVID-19 operating expenses, has had a negative impact on results of operations and cash flow from operations at our communities. We continue to proactively work closely with our tenants and third-party operators to monitor the impact from COVID-19 on the operations of our seniors housing communities.

The outbreak of COVID-19 as a pandemic has resulted in significant effects on global markets, supply chains, businesses and communities. Many countries, including the United States, have reacted and continue to react by, among other things, instituting quarantines, mandating business and school closures and restricting travel. The disruptions caused by COVID-19 brought to a halt most economic activity in most of the United States resulting in a significant increase in unemployment claims and will likely result in a significant decline in the U.S. Gross Domestic Product. COVID-19 could have a continued and prolonged adverse impact on economic and market conditions and trigger a period of global economic slowdown which could have a material adverse effect on our Company's results and financial condition.

The full impact of COVID-19 on the financial and credit markets and consequently on our business, financial condition and results of operations is uncertain and cannot be predicted at the current time as it depends on several factors beyond our control including, but not limited to (i) the uncertainty around the severity and duration of the outbreak, (ii) the effectiveness of the United States public health response, (iii) the pandemic's impact on the United States and global economies, (iv) the timing, scope and effectiveness of additional governmental responses to the pandemic and (v) the timing and speed of economic recovery, including the availability of a treatment or vaccination for COVID-19.

The Advisor began its contingency and process planning for the potential pandemic and transitioned swiftly to a remote working environment in early March for all the personnel that support our Company's operations in advance of the issuance of stay at home orders from state and local governmental agencies. In March, we proactively increased our engagement with our property managers and our communities. Even though we already had influenza protocols at each of our seniors housing communities, we immediately enhanced the influenza protocols to incorporate new guidelines issued by the CDC to address the increased exposure from COVID-19.

As of December 31, 2020, our healthcare investment portfolio consisted of interests in 74 properties, including 71 senior housing communities. Our 71 seniors housing communities are located throughout the United States in 26 states with a population of nearly 7,000 residents and approximately 5,700 community-level staff. As of March 4, 2021, as reported by our senior housing operators and tenants, we had 19 active, confirmed positive cases among our residents and staff members in 11 of our communities located in seven states. The number of confirmed cases in our senior housing communities may continue to increase depending on the duration, scope and depth of the COVID-19 pandemic as well as the timing and extent of ceasing stay at home and other social distancing restrictions from state and local governmental agencies.

As described below in "Liquidity and Capital Resources", as of December 31, 2020, we had $211.7 million in liquidity, consisting of approximately $61.5 million in cash on hand and approximately $150.2 million of availability under our Revolving Credit Facility. We remain focused on maintaining 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.

Of our 71 senior housing communities, we owned 15 properties leased to two separate third party tenants under triple-net leases ("NNN"), and the remaining 56 properties were managed through third party operators, including five senior housing communities owned through our unconsolidated joint venture. In May 2020, we granted a $2 million rent deferral relating to eight properties leased to one of our two senior housing tenants representing rental lease payments for the periods May, June and July of 2020. We did not provide any rent concessions to this tenant and repayment of the $2 million in deferred amounts is scheduled to be collected over twelve monthly installments beginning in January 2021. In August of 2020, we began collecting 100% of the rental amounts from this tenant due in accordance with their lease agreements and in January 2021, began collecting installments relating to the $2 million deferral as scheduled. As of March 4, 2021, we had collected 100% of all rental amounts related to the 13 seniors housing properties leased to this third-party tenant under NNN leases and had collected installments relating to the $2 million deferral as scheduled. In December 2020, our other tenant that leases two properties under NNN leases informed us that they will be requesting rent relief during 2021. As of March 4, 2021, we had collected 100% of rental amounts due under their NNN leases and were exploring rent relief either in the form of a potential rent deferral or rent concession.

Since March 13, 2020, there have been a number of federal, state and local government initiatives to manage the spread of the virus and its impact on the economy, financial markets and continuity of businesses of all sizes and industries. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law which provided, among other things, for the establishment of a Provider Relief Fund under the direction of the Department of Health and Human Services ("HHS"). In September 2020, HHS announced that it had expanded the eligibility of the Provider Relief Fund to include assisted living facilities as part of Phase 2, and subsequently announced additional eligibility under Phase 3 of the Provider Relief Fund. These Provider Relief Funds are deemed governmental grants and are intended to reimburse eligible providers for expenses incurred to prevent, prepare for and respond to COVID-19 and lost revenues attributable to COVID-19. Recipients are not required to repay distributions from the Provider Relief Fund, provided that they attest to and comply with certain terms and conditions, including reporting and record keeping requirements and cooperating with any government audits. During the year ended December 31, 2020, we received and recorded $5.3 million of Provider Relief Funds as other income as all conditions of the grant had been met.

The CARES Act and related legislation also made other forms of financial assistance available to healthcare providers. This assistance included an expansion of the Medicare Accelerated and Advance Payment Program, which made available accelerated payments of Medicare funds in order to increase cash flow to providers. The Cares Act and related legislation also suspended Medicare sequestration payment adjustments, which would have otherwise reduced payments to Medicare providers by 2%, from May 1, 2020 through March 31, 2021. During the year ended December 31, 2020, we received approximately $0.4 million in Medicare advances and recorded them as a liability as of December 31, 2020.

We believe we are taking appropriate actions to manage through the COVID-19 pandemic. As described above, we began to see a reduction in our operating results in the last half of March 2020 which has continued through the date of this filing. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated. The ultimate extent of the impact of COVID-19 on the financial performance of our Company will depend on future developments, including the duration and spread of COVID-19 and its effects on the overall economy, all of which are highly uncertain and cannot be predicted.

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"). Since 2018, the Special Committee has engaged KeyBanc Capital Markets Inc. to act as its financial advisor 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 medical office buildings ("MOBs"), five post-acute care facilities and five acute care hospitals across the US. We had also committed to a plan to sell our seven skilled nursing facilities and as of December 31, 2018, we had a total of 70 properties classified as held for sale.

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 aggregate 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.

During the last half of 2019 and through December 31, 2020, we sold nine additional properties (two properties from our MOB/Healthcare Portfolio and seven skilled nursing facilities) to unrelated third parties. We received aggregate net sales proceeds of $121.1 million relating to these nine properties and retained the net sales proceeds for corporate purposes. In September 2020, we decided to discontinue marketing for sale our Hurst Specialty Hospital, which we had previously classified as assets held for sale, due to financial difficulties experienced by the tenant of this property. As of December 31, 2020, we had one acute care property classified as held for sale and had entered into a purchase and sale agreement with the existing tenant of this acute care property. In January 2021, we closed on the sale of this acute care property, received net sales proceeds of $7.4 million and retained these proceeds for corporate purposes.

As of March 4, 2021, we had completed the sale of the 69 properties that we planned to sell as part of executing under our Possible Strategic Alternatives. In light of the market disruption in the seniors housing sector from COVID-19, we retained the net sales proceeds from the two properties sold in the latter part of 2019 and the seven properties sold through the first quarter of 2020 for corporate purposes, as we are focused on maintaining balance sheet strength and liquidity to enhance financial flexibility. In addition, we shifted our focus away from the pursuit of larger strategic alternatives to provide further liquidity to our shareholders due to the market and industry disruptions from COVID-19 during the year ended December 31, 2020. However, our Special Committee continues to work with our financial advisor to carefully study market data and potential options to determine suitable liquidity alternatives that are in the best interests of all of our shareholders.

Seniors Housing Portfolio

Our remaining investment focus is in seniors housing communities. We invested in or developed the following types of seniors housing properties:

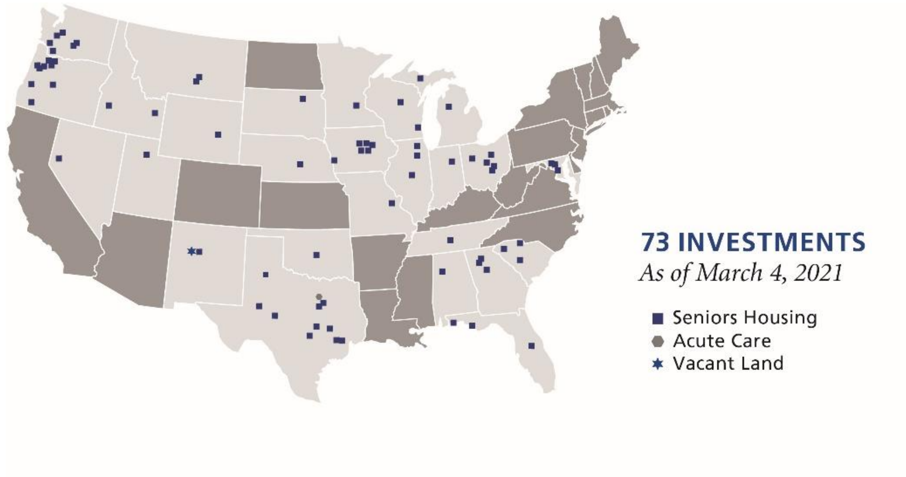
Independent Living Facilities. Independent living facilities are age-restricted, multi-family rental or ownership (condominium) housing with central dining facilities that provide residents, as part of a monthly fee, meals and other services such as housekeeping, linen service, transportation, social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

Portfolio Overview

We believe demographic trends and compelling supply and demand indicators presented a strong case for an investment focus on seniors housing real estate assets. Our seniors housing portfolio is geographically diversified with properties in 26 states. The map below shows our current property allocations across geographic regions as of March 4, 2021:



The following table summarizes our remaining healthcare portfolio by asset class and investment structure as of March 4, 2021:

Type of Investment	Number of Investments	Amount of Investments (in millions)	Percentage of Total Investments
Consolidated investments:			
Seniors housing leased [(1)]	15	$ 311.0	17.3 %
Seniors housing managed [(2)]	51	1,427.8	79.3 %
Seniors housing unimproved land	1	1.1	0.1 %
Acute care leased [(1)]	1	29.5	1.6 %
Unconsolidated investments:			
Seniors housing managed [(3)]	5	31.1	1.7 %
	73	$ 1,800.5	100.0 %

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 are owned through an unconsolidated joint venture and are leased to TRS entities and managed pursuant to third-party management contract (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 have and continue to proactively work closely with our tenants and third-party operators to monitor the impact from COVID-19 on the operations of our seniors housing communities.

We monitor the credit of our tenants to stay abreast of any material changes in credit quality. We monitor 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. The tenant at our Hurst Specialty Hospital began experiencing financial difficulties and we are working with this tenant on the collection of past due amounts. Refer to "Liquidity and Capital Resources - Tenant Financial Difficulties" below for additional information.

When evaluating the performance of our senior housing portfolio, 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 10% or more of our rentable space as of December 31, 2020, excluding the five properties owned through our unconsolidated joint venture and one acute care property, which was classified as held for sale, sold in January 2021 and for which its operating results were classified as discontinued operations:

Tenants	Number of Properties	Rentable Square Feet (in thousands)	Percentage of Rentable Square Feet	Lease Expiration Year
TSMM Management, LLC [(1)]	13	1,261	74.8%	2022-2025
Wellmore, LLC	2	366	21.7%	2026-2027
Other tenant	1	58	3.5%	2031
	16	1,685	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
Other operators [(2)]	27	2,578	41.3%	2021-2029
	51	6,255	100.0%	

FOOTNOTE:

(1) We granted a $2 million rent deferral relating to eight properties under this tenant during the year ended December 31, 2020. The deferral will be collected over 12 equal installments beginning in January 2021

(2) Comprised of various operators each of which comprise less than 10% of our consolidated rentable square footage.

Tenant Lease Expirations

As of December 31, 2020, excluding the one property classified as held for sale (which was sold in January 2021), we owned 15 seniors housing properties and one acute care property that were leased to third party tenants under triple-net operating leases. During the year ended December 31, 2020, our rental income from continuing operations represented approximately 8.6% 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. Refer to "Liquidity and Capital Resources – Tenant Financial Difficulties" below for information on real estate taxes paid relating to our one acute care property.

As of December 31, 2020, none of the leases on our properties from which we derive rental income from continuing operations were 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. Certain amendments or modifications to the terms of existing leases could require lender approval.

The following table lists, on an aggregate basis, scheduled expirations for the next 10 years ending December 31st and thereafter on our 15 consolidated seniors housing properties and our Hurst Specialty Hospital leased to third-party tenants, excludes the one acute care property leased and classified as held for sale (that was sold in January 2021), and assumes that none of the tenants exercise any of their renewal options (in thousands, except for number of properties and percentages) as of December 31, 2020:

Year of Expiration (1)	**Number of Properties**	**Expiring Leased Square Feet**	**Expiring Annualized Base Rents** (2)	**Percentage of Expiring Annual Base Rents**
2021	—	—	—	—
2022	5	518	8,397	27.7%
2023	—	—	—	—
2024	—	—	—	—
2025	8	743	11,778	38.9%
2026	1	137	3,395	11.2%
2027	1	229	4,518	14.9%
2028	—	—	—	—
2029	—	—	—	—
2030	—	—	—	—
Thereafter	1	58	2,196	7.3%
Total	16	1,685	$ 30,284	100.0%

Weighted Average Remaining Lease Term: (3) 4.5 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.

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. Our ongoing sources and uses of capital have been and will continue to be impacted by the COVID-19 pandemic as described above in "COVID-19". As 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, 2020, we had approximately $211.7 million of liquidity (consisting of approximately $61.5 million in cash on hand and approximately $150.2 million of undrawn availability under our Revolving Credit Facility). We have approximately $11.3 million of debt obligations coming due during 2021 and have begun to engage in dialogue with our lender about refinancing options for approximately $236.4 million of debt obligations coming due in January 2022. Refer to "Uses of Liquidity and Capital Resources – Debt Repayments" for additional information. We remain focused on maintaining liquidity and financial flexibility and continue to monitor developments as we continue to deal with the disruptions and uncertainties from a business and financial perspective relating to COVID-19. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated. The ultimate extent of the impact of COVID-19 on the financial performance of our Company will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the outbreak of the pandemic, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic effects of the pandemic and containment measures, among others.

We have pledged certain of 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, including the COVID-19 pandemic, which could 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 for the 62 properties from our MOB/Healthcare Portfolio classified as discontinued operations, of which 61 were sold through December 31, 2020 and of which one acute care property was classified as held for sale as of December 31, 2020. We sold this property in January 2021.

Sources of Liquidity and Capital Resources

Proceeds from Sale of Real Estate – Continuing Operations

As part of executing under our Possible Strategic Alternatives, during the year ended December 31, 2020, we closed on the sale of six skilled nursing properties (the "Perennial Communities") and received net sales proceeds of $53.7 million. 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 sold one skilled nursing facility (the "Grand Junction Property") and received total net sales proceeds for both properties of approximately $6.0 million. We retained the net sales proceeds from the Perennial Communities and the Grand Junction Property for corporate purposes given our focus of 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, during year ended December 31, 2020, we closed on the sale of our last post-acute care property (the "New Orleans Property") and received net sales proceeds of $28.4 million. We retained these net sales proceeds for corporate purposes given our focus of maintaining a strong balance sheet, liquidity and financial flexibility given the uncertainty relating to COVID-19. In April and May 2019, we sold 59 properties from 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, received net sales proceeds of $33.2 million and retained these net sales proceeds for corporate purposes to maintain liquidity due 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, "Previous Credit Facilities"). 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 Previous Credit Facilities (including the payment of amounts outstanding under our Previous Credit Facilities as described further in "Uses of Liquidity and Capital Resources – Debt Repayments") and entered into new financings, which are comprised of a new Revolving Credit Facility of approximately $250 million and a new Term Loan Facility of approximately $265 million (collectively, the "Credit Facilities"). The new Revolving Credit Facility has an initial four-year term through May 2023, plus one 12-month extension option, and the new Term Loan Facility has an initial five-year term through May 2024. The Credit Facilities bear interest based on 30-day LIBOR plus a spread that varies with our leverage ratio.

During the years ended December 31, 2020 and 2019, we borrowed proceeds of approximately $40.0 million and $116.5 million, respectively, before repayments on the Revolving Credit Facility, as described in "Uses of Liquidity and Capital Resources – Debt Repayments." We borrowed the $40 million in April 2020 as a precautionary measure to increase liquidity and preserve financial flexibility in light of COVID-19 and in September 2020 repaid the outstanding $80 million under our Revolving Credit Facility. We have borrowed money to fund capital expenditures at our properties and 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.

Net Cash Provided by Operating Activities – Continuing Operations

We experienced positive cash flow from operating activities for the years ended December 31, 2020 and 2019 of approximately $62.1 million and $54.8 million, respectively. The increase in cash flows from operating activities for the year ended December 31, 2020 as compared to the same period in 2019 was primarily the result of the following:

- a decrease in general and administrative expenses which were primarily attributable to the decrease in expenses related to the execution of Possible Strategic Alternatives;

- lower interest expense resulting from the repayment of approximately $1.3 billion of indebtedness during the year ended December 31, 2019 from the refinancing of our credit facilities, the strategic repayment of other property related indebtedness using net sales proceeds from the sales of properties during the year ended December 31, 2019 and the repayment of indebtedness during the year ended December 31, 2020, partially offset by;

- a decline in property net operating income ("NOI"), (partially offset by the $5.7 million received in Provider Relief Funds), related to our seniors housing properties due to the COVID-19 pandemic, caused by lower occupancy revenues and incurring COVID-19 related operating expenses, including higher labor costs, costs to obtain personal protective equipment and other costs related to disease control and containment;

- a decrease in rent collections of approximately $2.0 million due to the rent payment deferral granted to one of our senior housing tenants relating to eight properties and a decrease in cash collections of approximately $0.8 million due to the financial difficulties experienced by the tenant of our Hurst Specialty Hospital, as described below under "Tenant Financial Difficulties;" and

- a decrease in rental income from the sale of the Perennial Communities in March 2020.

Tenant Financial Difficulties

The tenant of our Hurst Specialty Hospital experienced financial difficulties during the year ended December 31, 2020. The tenant was unable to remain current under its lease obligation and had $0.8 million of past due rents outstanding (all of which were reserved) as of December 31, 2020. We assessed that collectability of lease payments was not probable and record rental income on a cash basis for this tenant. In addition, we incurred approximately $0.4 million in delinquent real estate taxes related to this property and are pursuing collection of all past due amounts. We also recorded write-offs of $2.5 million of lease related costs during the year ended December 31, 2020 as discussed further in Note 4. "Real Estate, net".

Distributions from Unconsolidated Entities

As of December 31, 2020 and 2019, we had an investment in five unconsolidated properties through an unconsolidated joint venture (the "Windsor Manor 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, 2020 and 2019, we received approximately $0.3 million and $1.1 million of operating distributions from our investment in these unconsolidated entities, respectively.

Amended and Restated Expense Support Agreement

We have entered into an amended and restated expense support agreement with our Advisor (the "Amended and Restated Expense Support Agreement"). Pursuant to the Amended and Restated Expense Support Agreement, our Advisor agreed to provide expense support through forgoing the payment of fees in cash and acceptance of restricted forfeitable stock for services in an amount equal to the positive excess, if any, of (a) Aggregate Stockholder Cash Distributions declared for the applicable year, over (b) our aggregate modified funds from operations over the same period (as defined in the Amended and Restated Expense Support Agreement).

Under the terms of the Amended and Restated 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 Amended and Restated 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, 2020, 2019 or 2018. Refer to Item 8. "Financial Statements and Supplementary Data —Note 10. Related Party Arrangements" for additional information.

Uses of Liquidity and Capital Resources

Capital Expenditures - Continuing Operations

We paid approximately $12.2 million and $6.4 million in capital expenditures during the years ended December 31, 2020 and 2019, respectively.

Debt Repayments

During the year ended December 31, 2020, we paid approximately $39.7 million of debt obligations, which included approximately $28.5 million of debt obligations that were scheduled to mature during 2020 and $11.2 million of scheduled repayments on our mortgages and other notes payable. In September 2020, we repaid the $80 million that was outstanding under our Revolving Credit Facility. We remain focused on maintaining 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.

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 and 2020 maturities. 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.

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, 2020 and 2019, including indebtedness related to assets held for sale (in thousands):

	As of December 31,	
	2020	**2019**
Mortgages payable and other notes payable:		
Fixed rate debt	$ 337,519	$ 368,974
Variable rate debt [1]	—	8,282
Mortgages and other notes payable [2]	337,519	377,256
Premium, net [3]	101	142
Loan costs, net	(935)	(1,470)
Total mortgages and other notes payable, net	336,685	375,928
Credit facilities:		
Revolving Credit Facility[1][4]	—	40,000
Term Loan Facility[1]	265,000	265,000
Loan costs, net related to Term Loan Facilities	(1,577)	(2,050)
Total credit facilities, net	263,423	302,950
Total indebtedness, net	$ 600,108	$ 678,878

FOOTNOTES:

(1) As of December 31, 2020 and 2019, we had entered into interest rate caps with notional amounts of approximately $225.0 million and $281.0 million, respectively. Refer to Item 8. "Financial Statements and Supplementary Data—Note 11. Derivative Financial Instruments" for additional information.

(2) As of December 31, 2020 and 2019, our mortgages and other notes payable are collateralized by 29 and 32 properties, respectively, with total carrying value of approximately $497.4 million and $567.8 million, respectively.

(3) Premium (discount), net is reflective of us recording mortgage note payables assumed at fair value on the respective acquisition dates.

(4) As of December 31, 2020 and 2019, we had undrawn availability under the applicable revolving credit facility of approximately $150.2 million and $181.7 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, 2020 (in thousands):

2021	$ 11,315
2022	282,121
2023	23,417
2024	285,666
2025	—
Thereafter	—
	$ 602,519

We had liquidity of $211.7 million as of December 31, 2020 (consisting of $61.5 million of cash on hand and $150.2 million of availability under our Revolving Credit Facility) and were well positioned to manage our near-term debt maturities. We have $11.3 million of scheduled payments coming due during the year ended December 31, 2021 and have a material maturity in January 2022 of $236.4 million, consisting of debt collateralized by 22 properties. We have had early discussions with our lender about repayment or refinancing options upon maturity. We have several other options, including but not limited to, refinancing the facility with the existing lender or another lending institution as a secured loan facility, liquidating all or a portion of the 22 properties to satisfy the obligation, or adding all or a portion of the 22 properties to our existing Credit Facilities and repaying the balance with a draw on the Revolving Credit Facility. The addition of all 22 properties to the borrowing base of our Credit Facilities would result in $100 million of additional availability under our Revolving Credit Facility.

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, 2020 and 2019, we had an aggregate debt leverage ratio of approximately 32.3% and 35.5%, respectively, of our aggregate gross asset values (as defined in 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 performance criteria and remedies for the lenders. The borrowers are normally direct or indirect subsidiaries of our Operating Partnership. As of December 31, 2020, our 22 properties that are cross collateralized in a secured debt transaction did not achieve a minimum debt service coverage covenant. The missed covenant requires that the annual taxes and insurance premiums for each of the 22 properties (estimated at approximately $6.0 million in the aggregate for all 22 properties) be escrowed monthly, until such time that the covenant is achieved. In accordance with the cure provision under our loan agreement, we are working with our lender to establish the cash escrow accounts and anticipate escrowing the approximate $6.0 million over the next twelve months with our lender using available cash on hand.

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, 2020, we were in compliance with all financial covenants related to our Credit Facilities.

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

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, 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 will continue to monitor the extent of the impact of the disruptions from the COVID-19 pandemic on our cash flows from operations in determining the level of distributions going forward.

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 from our MOB/Healthcare Portfolio 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 previous quarterly cash distribution of $0.1164 per share. 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, 2020, 2019 and 2018 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, 2020, 2019 and 2018 (in thousands, except per share data):

		Distributions Paid (1)			
Periods	Cash Distributions per Share	Cash Distributions Declared (2)	Reinvested via Reinvestment Plan	Cash Distributions net of Reinvestment Proceeds	Cash Flows Provided by Operating Activities (4)
2020 Quarters					
First	$ 0.05120	$ 8,906	$ —	$ 8,906	$ 17,860
Second	0.05120	8,907	—	8,907	14,151
Third	0.05120	8,907	—	8,907	15,486
Fourth	0.05120	8,907	—	8,907	15,622
Total	$ 0.20480	$ 35,627	$ —	$ 35,627	$ 63,119
2019 Quarters					
First	$ 0.11639	$ 20,246	$ —	$ 20,246	$ 26,155
Second(3)	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	$ 2.26999	$ 394,892	$ —	$ 394,892	$ 59,950
2018 Quarters					
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	$ 0.46556	$ 81,064	$ 22,013	$ 59,051	$ 67,260

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, 2020, 2019 and 2018, our net income (loss) attributable to common stockholders was approximately $3.9 million, $351.5 million and ($25.1 million), respectively, while cash distributions declared were approximately $35.6 million, $394.9 million and $81.1 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, 2020, 2019 and 2018, (excluding the special cash distribution paid during the year ended December 31, 2019) approximately 100%, 100% and 83.0%, 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%, 0% and 17.0%, respectively, of regular cash distributions declared to stockholders were considered to be funded with borrowings under our Credit Facilities.

(3) Our board of directors used a portion of the net sales proceeds from the MOB Sale to declare a special cash distribution of $347.9 million, or $2.00 per share of common stock. In addition, as a result of the MOB Sale, our board of directors adjusted our regular quarterly cash distributions to an amount equal to $0.0512 per share, compared to $0.1164 per share in effect since the third quarter of 2017.

(4) 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 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 and 2018, we paid approximately $1.1 million and $5.0 million, respectively, of lease incentives. There were no lease incentive payments for the year ended December 31, 2020. For the years ended December 31, 2019 and 2018, we expensed approximately $1.9 million and $2.3 million in financing coordination fees, respectively. There were no financing coordination fees expensed for the year ended December 31, 2020.

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 cash distributions as well as the tax composition of our distributions.

Results of Operations

As described above in “Management’s Discussion and Analysis of Financial Conditions and Results of Operations - COVID 19,” the COVID-19 pandemic negatively impacted our operating cash flows and results of operation during the year ended December 31, 2020. The ultimate extent of the impact of the pandemic on our results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including the duration of the current COVID-19 pandemic and actions taken to contain and prevent further spread, among others. Accordingly, we cannot predict the duration and 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, 2020 as compared to the fiscal year ended December 31, 2019

As of December 31, 2020, excluding the one acute care property classified as discontinued operations (which was sold in January 2021), and our unimproved land, we owned 67 consolidated properties, consisting of 51 properties operated under management agreements with third-party operators and 16 properties leased to third-party tenants under NNN leases.

	Investment count as of December 31,	
Consolidated operating investment types:	**2020**	**2019**
Seniors housing leased	15	15
Seniors housing managed	51	51
Post-acute care leased[(1)]	—	6
Acute care leased	1	1
	67	73

FOOTNOTES:

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

Rental Income and Related Revenues. Rental income and related revenues were approximately $26.3 million for the year ended December 31, 2020 as compared to $37.8 million for the year ended December 31, 2019. The decrease was primarily due to sale of the Grand Junction property in December 2019 and the Perennial Communities in March 2020. The decrease was also due to recording a write-off of $2.5 million during the year ended December 31, 2020, representing deferred rent from prior GAAP straight-line adjustments and unamortized lease costs, as well as establishing rent reserves of $0.8 million for uncollected rents relating to our Hurst Specialty Hospital due to tenant financial difficulties. Refer to “Liquidity and Capital Resources – Tenant Difficulties” and Note 4. “Real Estate, net” for additional information.

Resident Fees and Services. Resident fees and services income was approximately $280.9 million for the year ended December 31, 2020 as compared to approximately $288.3 million for the year ended December 31, 2019. As described above in “Liquidity and Capital Resources - COVID-19”, resident fees and services were negatively impacted during the year ended December 31, 2020 as a result of declines in occupancy levels affected by move-in restrictions, intensified screening and other measures enacted at our communities to address the spread of COVID-19. As a result of the disruptions and uncertainty from COVID-19, we expect to experience reduced occupancy levels, resident fees and services during 2021.

Property Operating Expenses. Property operating expenses were approximately $193.4 million for the year ended December 31, 2020 as compared to approximately $188.6 million for the year ended December 31, 2019. The increase in property operating expenses is primarily a result of incurring expenses for emergency preparedness, disease control and containment, and labor costs of healthcare personnel as a result of COVID-19. As a result of the disruptions and uncertainty from COVID-19, we expect to experience increased COVID-19 related operating expenses during 2021.

General and Administrative. General and administrative expenses for the year ended December 31, 2020 were approximately $9.4 million as compared to approximately $13.2 million for the year ended December 31, 2019. 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. General and administrative expenses during the year ended

December 31, 2019 included expenses related to the execution of Possible Strategic Alternatives and stock compensation expense incurred related to the special cash distribution declared in May 2019 on restricted stock issued pursuant to the Advisor Amended and Restated Expense Support Agreement. No such expenses were incurred during the year ended December 31, 2020.

Asset Management Fees. We incurred approximately $18.1 million and $18.6 million in asset management fees payable to our Advisor during the years ended December 31, 2020 and 2019, 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 $13.8 million and $12.8 million for the years ended December 31, 2020 and 2019, respectively, payable to our third-party property managers. Property management fees were lower during the year ended December 31, 2019 because several third-party operators did not meet property performance targets and were required to subordinate a portion of their management fee in accordance with their property management agreements. We amended and removed the subordination provision from their property management agreements subsequent to September 30, 2019. Property management fees for the year ended December 31, 2020 did not reflect subordination of management fees from these third-party operators.

Financing Coordination Fees. 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. No financing coordination fees were incurred during the year ended December 31, 2020. We expensed financing coordination fees of $1.9 million related to the refinancing of our credit facilities for the year ended December 31, 2019.

Depreciation and Amortization. Depreciation and amortization for the years ended December 31, 2020 and 2019 were approximately $51.8 million and $49.8 million, respectively. Depreciation and amortization expense relate to the depreciation and amortization of the buildings, equipment, land improvements and in-place leases related to our real estate portfolio. Depreciation and amortization expense for the year ended December 31, 2020 included an adjustment of $1.5 million related to our Hurst Specialty Hospital which we had previously classified as held for sale. Due to financial difficulties of the tenant, we decided to discontinue marketing this property for sale and reclassified this property as held and used. The adjustment represented the catch up in depreciation expense that would have been recognized had the Hurst Specialty Hospital been continuously classified as held and used. Refer to Note 4. “Real Estate Assets, net” for additional information.

Gain on Sale of Real Estate. Gain on sale of real estate was approximately $1.1 million for the year ended December 31, 2020, as compared to approximately $0.4 million for the year ended December 31, 2019. In March 2020, we sold the Perennial Communities and in June 2019, we sold a small parcel of vacant land at our Brookridge Heights Assisted Living & Memory Care property.

Interest and Other Income. Interest and other income was approximately $5.7 million for the year ended December 31, 2020, as compared to approximately $1.5 million for the year ended December 31, 2019. Other income included $5.3 million in CARES Act Provider Relief Funds received and recorded as other income during 2020 for which conditions of the grant were met. Refer to “Liquidity and Capital Resources – COVID-19” and Note 2. “Summary of Significant Accounting Policies – Government Grant Income” for additional information.

Interest Expense and Loan Cost Amortization. Interest expense and loan cost amortization for the years ended December 31, 2020 and 2019 were approximately $24.3 million and $39.6 million, respectively. The decrease in interest expense and loan cost amortization was primarily the result of the reduction in LIBOR rates and a reduction in average debt outstanding resulting from the repayment of approximately $1.3 billion of indebtedness from the refinancing of our credit facilities and the repayment of indebtedness using net sales proceeds from the sales of properties during the year ended December 31, 2019, as well as the repayment of debt obligations during the year ended December 31, 2020. 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 prior to their maturity dates.

Income Tax Expense. For the years ended December 31, 2020 and 2019, we recognized federal and state income tax expense related to our properties of approximately $1.1 million and $2.2 million, respectively.

Income 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 62 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 from discontinued operations was approximately $1.0 million and $349.7 million for the years ended December 31, 2020 and 2019, respectively. The decrease in income from discontinued operations during the year ended December 31, 2020 was primarily attributable to the following:

- recording a gain on sale of real estate of $0 and $336.1 million during the years ended December 31, 2020 and 2019, respectively, from the sale of one property and 61 properties, respectively;
- a decrease in interest expense of approximately $14.6 million resulting from the repayment of all indebtedness during 2019; and
- a decrease in operating income, excluding gain on sale of real estate, of approximately $27.4 million due to the sale of 61 properties in 2019.

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

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 the Welbrook Senior Living Grand Junction property that was sold in December 2019 and the Perennial Communities \that were sold in March 2020, as we did not own those properties during the entirety of all periods presented. The chart below presents a reconciliation of our net income to NOI for the years ended December 31, 2020 and 2019 (in thousands) and the amount invested in properties as of December 31, 2020 and 2019 (in millions), excluding properties classified as discontinued operations:

	Years Ended December 31,		Change	
	2020	2019	$	%
Net income	$ 4,011	$ 351,796		
Adjusted to exclude:				
General and administrative expenses	9,413	13,217		
Asset management fees	18,051	18,593		
Financing coordination fees	—	1,878		
Depreciation and amortization	51,817	49,823		
Gain on sale of real estate	(1,074)	(432)		
Other expenses, net of other income	17,580	37,356		
Income tax expense	1,098	2,211		
Income from discontinued operations	(954)	(349,730)		
NOI	99,942	124,712	$ (24,770)	(19.9)%
Less: Non-same-store income	962	5,917		
Same-store NOI	$ 98,980	$ 118,795	$ (19,815)	(16.7)%
Invested in operating properties, end of period (in millions)	$ 1,768	$ 1,853		

Overall, our same-store NOI for the year ended December 31, 2020 decreased by approximately $19.8 million as compared to the same period in the prior year. As described above in "Liquidity and Capital Resources - COVID-19", same store NOI was negatively impacted during the year ended December 31, 2020 as a result of declines in property occupancy levels, resident fees and services affected by move-in restrictions, intensified screening and other measures enacted at our communities to address the spread of COVID-19, coupled with an increase in COVID-19 operating related expenses, which included higher labor costs, costs to obtain personal protective equipment and other costs related to disease control and containment.

Funds from Operations and Modified Funds from Operations

Due to certain unique operating characteristics of real estate companies, as discussed below, the National Association of Real Estate Investment Trusts, ("NAREIT") promulgated a measure known as funds from operations ("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 Investment Program Association, an industry trade group ("IPA") has standardized a measure known as modified funds from operations ("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.

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 income (loss) to FFO and MFFO for the years ended December 31, 2020, 2019 and 2018 (in thousands, except per share data):

	Years Ended December 31,		
	2020	2019	2018
Net income (loss) attributable to common stockholders	$ 3,912	$ 351,496	$ (25,072)
Adjustments:			
Depreciation and amortization:			
Continuing operations	51,817	49,823	54,673
Discontinued operations	—	—	31,418
Impairment provision: (1)			
Continuing operations	—	—	12,314
Gain on sale of real estate:			
Continuing operations	(1,074)	(432)	(1,049)
Discontinued operations	—	(336,074)	—
FFO adjustments attributable to noncontrolling interests:			
Continuing operations	(192)	(192)	(191)
Discontinued operations	—	261	(36)
FFO adjustments from unconsolidated entities: (2)	266	112	405
FFO attributable to common stockholders	54,729	64,994	72,462
Straight-line rent adjustments: (3)			
Continuing operations	1,697	733	(2,329)
Discontinued operations	—	(1,242)	199
Write-off of lease related costs: (4)			
Continuing operations	2,468	—	—
Discontinued operations	103	67	—
Amortization of premium for debt investments:			
Continuing operations	(42)	(42)	(41)
Discontinued operations	—	—	431
Unrealized gain from mark-to-market adjustments on swaps: (5)			
Discontinued operations	—	—	(26)
Loss on extinguishment of debt: (6)			
Continuing operations	35	1,163	96
Discontinued operations	—	3,339	—
Realized gain (loss) extinguishment of hedges or other derivatives: (7)			
Continuing operations	11	186	—
Discontinued operations	—	(429)	269
MFFO adjustments attributable to noncontrolling interests:			
Continuing operations	9	—	4
Discontinued operations	—	(9)	(3)
MFFO attributable to common stockholders	$ 59,010	$ 68,760	$ 71,062
Weighted average number of shares of common stock outstanding (basic and diluted)	173,960	173,963	174,247
Net income (loss) per share (basic and diluted)	$ 0.02	$ 2.02	$ (0.15)
FFO per share (basic and diluted)	$ 0.31	$ 0.37	$ 0.42
MFFO per share (basic and diluted)	$ 0.34	$ 0.40	$ 0.41

FOOTNOTES:

(1) The add back for impairment of real estate assets to arrive at FFO does not include impairments of deferred rent from prior GAAP straight-line adjustments, unamortized lease costs and lease related intangibles described in Footnote (4) below. While impairment charges are excluded from the calculation of FFO, investors are cautioned that due to the fact that impairments are based on estimated future undiscounted cash flows and the relatively limited term of our operations, it could be difficult to recover any impairment charges.

(2) 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.

(3) 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.

(4) Management believes that adjusting for write-offs of lease related assets is appropriate because they are non-cash adjustments that may not be reflective of our ongoing operating performance and, as a result, the adjustments better align results with management's analysis of operating performance. In 2020 and 2019, we recorded write-offs totaling approximately $2.6 million and $0.1 million, respectively, for deferred rent from prior GAAP straight-line adjustments, unamortized lease costs and lease related intangibles.

(5) 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.

(6) 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.

(7) Management believes that adjusting for the realized gain (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.

Contractual Obligations

The following table presents our contractual obligations by payment periods as of December 31, 2020, including liabilities associated with assets held for sale (in thousands):

	Payments Due by Period				
	2021	2022-2023	2024-2025	Thereafter	Total
Mortgages and other notes payable (principal and interest)	$ 25,415	$ 310,759	$ 21,274	$ —	$ 357,448
Credit facilities (principal and interest)	4,493	8,986	266,872	—	280,351
	$ 29,908	$ 319,745	$ 288,146	$ —	$ 637,799

Off-Balance Sheet Arrangements

As of December 31, 2020, our unconsolidated Windsor Manor Joint Venture had outstanding indebtedness of $19.0 million related to five senior housing communities. The loan matures in February 2024, has 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 unconsolidated 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, 2020, the Company did not incur operating expenses in excess of the limitation.

See Item 8. "Financial Statements and Supplemental Data–Note 10. 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.

Risks and Uncertainties **—** The outbreak of the novel coronavirus ("COVID-19") pandemic around the globe continues to adversely impact commercial activity and has contributed to significant volatility in financial markets. Various states in which the Company owns properties have reacted by, among other things, instituting quarantines and move-in restrictions that have negatively impacted occupancy at seniors housing communities. While some of these restrictions have been relaxed, many of these restrictions remain in place. The pandemic has also resulted in the incurrence of costs related to disease control and containment. Such actions have and continue to create significant business disruption and have and continue to adversely impact the senior housing sector. COVID-19 has had a continued and prolonged adverse impact on economic and market conditions and has triggered a period of economic slowdown which could have a material adverse effect on the Company's results and financial condition.

The full impact of COVID-19 on the Company's financial condition and results of operations is uncertain and cannot be predicted at the current time as it depends on several factors beyond the control of the Company including, but not limited to (i) the uncertainty around the severity and duration of the outbreak, (ii) the effectiveness of the United States public health response, (iii) the pandemic's impact on the U.S. and global economies, (iv) the timing, scope and effectiveness of additional governmental responses to the pandemic and (v) the timing and speed of economic recovery, including the availability of a treatment or vaccination for COVID-19.

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 impairment indicators. Management considers potential impairment indicators to primarily include (i) changes in a real estate asset's operating performance, such as a current period net operating loss combined with a history of net operating losses, or changes in a lease which demonstrate potential future losses associated with the use of a real estate asset or (ii) a current expectation that, more likely than not, a real estate asset will be sold or otherwise disposed of significantly before the end of its previously estimated holding period. 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.

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, 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.

Revenue Recognition. Rental income and related revenues for operating leases are recognized based on the assessment of collectability of lease payments. When collectability is probable at commencement of the lease, lease income is recognized on an accrual basis and includes rental income that is recorded on the straight-line basis over the term of the lease. Collectability is reassessed during the lease term. When collectability of lease payments is no longer probable, lease income is recorded on a cash basis and limited to the amount of lease payments collected. In addition, lease related costs (the deferred rent from prior GAAP straight-line adjustments, unamortized lease costs and other lease related intangibles) are written-off when the Company determines that these assets are no longer realizable.

Rental income and related revenues recorded on an accrual basis include 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.

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, 2020, 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							
	2021	**2022**	**2023**	**2024**	**2025**	**Thereafter**	**Total**	**Fair Value**(1)
Fixed rate debt	$ 11,315	$ 282,122	$ 23,417	$ 20,665	$ —	$ —	$ 337,519	$ 339,000
Weighted average interest rate on fixed rate debt	4.29 %	4.27 %	4.65 %	3.25 %	— %	— %	4.23 %	
Variable rate debt	$ —	$ —	$ —	$ 265,000	$ —	$ —	$ 265,000	$ 265,000
Average interest rate on variable rate debt	—%	—%	—%	LIBOR +1.55%	—%	— %	LIBOR + 1.55%	

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, 2020. We determined market rates through discussions with our existing lenders by pricing our loans with similar terms and current rates and spreads.

Management estimates that a hypothetical one-percentage point increase in LIBOR compared to the LIBOR rate as of December 31, 2020, considering the impact of our interest rate caps, would increase annual interest expense by approximately $1.8 million on our variable rate debt for the year ended December 31, 2020. 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.

As of December 31, 2020, the Company’s debt is comprised of approximately 56.0% in fixed rate debt, approximately 37.3% in variable rate debt with current interest rate protection and approximately 6.7% of unhedged variable rate debt. The remaining unhedged variable rate debt primarily relates to our Term Loan 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

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, 2020 and 2019, 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, 2020, including the related notes and financial statement schedules appearing under Item 8 as 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, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 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.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Analysis of Real Estate Assets for Indicators of Impairment

As described in Notes 2 and 4 to the consolidated financial statements, the net carrying value of the Company's real estate investment properties was $1.4 billion as of December 31, 2020. Real estate assets are reviewed by management on an ongoing basis to determine whether there are any impairment indicators. Management considers potential impairment indicators to primarily include (i) changes in a real estate asset's operating performance, such as a current period net operating loss combined with a history of net operating losses, or changes in a lease which demonstrate potential future losses associated with the use of a real estate asset or (ii) a current expectation that, more likely than not, a real estate asset will be sold or otherwise disposed of significantly before the end of its previously estimated holding period.

The principal considerations for our determination that performing procedures relating to the analysis of real estate assets for indicators of impairment is a critical audit matter are (i) the significant judgment by management when determining impairment indicators, including the real estate assets' operating performance and the estimated holding period, and (ii) the high degree of auditor judgment and subjectivity in performing procedures related to management's determination of impairment indicators and the real estate assets' operating performance and the estimated holding period.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included, among others (i) evaluating the appropriateness of management's analysis of each real estate asset's operating performance and the reasonableness of management's determination of whether there were assets with net operating losses that are impairment indicators; (ii) testing the changes to the Company's leases for real estate assets related to the future minimum lease payment schedules and evaluating the impact to an asset's operating performance; (iii) reading the meeting minutes of the Board of Directors; (iv) inquiring of management about their judgments pertaining to the Company's evaluation of whether their plans have resulted in the determination that it is more likely than not there has been a change to the estimated holding period of an asset or group of assets; and (v) comparing management's determination of impairment indicators with evidence obtained in other areas of the audit.

/s/ PricewaterhouseCoopers LLP
Tampa, Florida
March 15, 2021

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, 2020	December 31, 2019
ASSETS		
Real estate investment properties, net (including VIEs $43,890 and $45,329, respectively)	$ 1,392,860	$ 1,432,655
Assets held for sale, net	7,421	88,804
Cash (including VIEs $505 and $1,024, respectively)	61,475	42,350
Restricted cash (including VIEs $102 and $76, respectively)	4,536	6,021
Other assets (including VIEs $524 and $577, respectively)	23,341	28,242
Deferred rent and lease incentives	13,582	17,144
Intangibles, net	826	1,220
Total assets	$ 1,504,041	$ 1,616,436
LIABILITIES AND EQUITY		
Liabilities:		
Mortgages and other notes payable, net (including VIEs $29,158 and $29,148, respectively)	$ 336,685	$ 375,928
Credit facilities	263,423	302,950
Accounts payable and accrued liabilities (including VIEs $490 and $1,286, respectively)	24,519	24,560
Other liabilities (including VIEs $242 and $219, respectively)	8,255	9,001
Due to related parties	1,780	2,275
Liabilities associated with assets held for sale	10	691
Total liabilities	634,672	715,405
Commitments and contingencies (Note 14)		
Redeemable noncontrolling interest	572	558
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 shares issued and 173,960 shares outstanding, respectively	1,740	1,740
Capital in excess of par value	1,516,926	1,516,926
Accumulated income	124,743	120,831
Accumulated distributions	(775,866)	(740,239)
Accumulated other comprehensive loss	(35)	(36)
Total stockholders' equity	867,508	899,222
Noncontrolling interest	1,289	1,251
Total equity	869,369	901,031
Total liabilities and equity	$ 1,504,041	$ 1,616,436

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,		
	2020	**2019**	**2018**
Revenues:			
Rental income and related revenues	$ 26,287	$ 37,786	$ 37,449
Resident fees and services	280,854	288,344	276,623
Total revenues	307,141	326,130	314,072
Operating expenses:			
Property operating expenses	193,427	188,578	182,663
General and administrative expenses	9,413	13,217	12,877
Asset management fees	18,051	18,593	18,684
Property management fees	13,772	12,840	14,075
Financing coordination fees	—	1,878	—
Depreciation and amortization	51,817	49,823	54,673
Impairment provision	—	—	12,314
Total operating expenses	286,480	284,929	295,286
Gain on sale of real estate	1,074	432	1,049
Operating income	21,735	41,633	19,835
Other income (expense):			
Interest and other income	5,655	1,531	335
Interest expense and loan cost amortization	(24,285)	(39,618)	(42,806)
Equity in earnings of unconsolidated entity	1,050	731	489
Total other expense	(17,580)	(37,356)	(41,982)
Income (loss) before income tax	4,155	4,277	(22,147)
Income tax expense	(1,098)	(2,211)	(3,644)
Income (loss) from continuing operations	3,057	2,066	(25,791)
Income from discontinued operations	954	349,730	640
Net income (loss)	4,011	351,796	(25,151)
Less: Amounts attributable to noncontrolling interest			
Net income (loss) from continuing operations	99	35	(85)
Net income from discontinued operations	—	265	6
Net income (loss) attributable to common stockholders	$ 3,912	$ 351,496	$ (25,072)
Net income (loss) per share of common stock (basic and diluted)			
Continuing operations	$ 0.01	$ 0.01	$ (0.15)
Discontinued operations	$ 0.01	$ 2.01	$ 0.00
Weighted average number of shares of common stock outstanding (basic and diluted)	173,960	173,963	174,247

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,		
	2020	2019	2018
Net income (loss)	$ 4,011	$ 351,796	$ (25,151)
Other comprehensive income (loss):			
Unrealized gain (loss) on derivative financial instruments, net	11	(980)	1,909
Reclassification of interest rate swaps upon derecognition	—	(509)	253
Reclassification of interest rate caps upon derecognition	2	265	—
Unrealized (loss) gain on derivative financial instruments of equity method investments	(12)	11	—
Total other comprehensive income (loss)	1	(1,213)	2,162
Comprehensive income (loss)	4,012	350,583	(22,989)
Less: Comprehensive income (loss) attributable to noncontrolling interest	99	300	(79)
Comprehensive income (loss) attributable to common stockholders	$ 3,913	$ 350,283	$ (22,910)

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 Number of Shares	Common Stock Par Value	Capital in Excess of Par Value	Accumulated (Loss) Income	Accumulated Distributions	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Non-controlling Interest	Total Equity
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)	—	(81,064)	—	(81,064)
Contribution from noncontrolling interests	185	—	—	—	—	—	—	—	—	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 accounting standard	—	—	—	—	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
Net income	44	—	—	—	3,912	—	—	3,912	55	4,011
Other comprehensive income	—	—	—	—	—	—	1	1	—	1
Distributions to noncontrolling interest	(30)	—	—	—	—	—	—	—	(92)	(122)
Cash distributions declared ($0.20480 per share)	—	—	—	—	—	(35,627)	—	(35,627)	—	(35,627)
Contributions from noncontrolling interests	—	—	—	—	—	—	—	—	75	75
Balance at December 31, 2020	$ 572	173,960	$ 1,740	$ 1,516,926	$ 124,743	$ (775,866)	$ (35)	$ 867,508	$ 1,289	$ 869,369

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2020	**2019**	**2018**
Operating activities:			
Net income (loss)	$ 4,011	$ 351,796	$ (25,151)
Net income from discontinued operations	954	349,730	640
Net income (loss) from continuing operations	3,057	2,066	(25,791)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	51,817	49,823	54,673
Amortization of loan costs	2,041	2,509	2,330
Amortization of premium for debt investments	(42)	(42)	(41)
Straight-line rent adjustments	1,697	733	(2,329)
Deferred income tax benefit	553	1,682	3,267
Loss on extinguishment of debt	35	804	96
Write-off of deferred rent and lease related costs	2,468	—	—
Impairment provision	—	—	12,314
Gain on sale of real estate	(1,074)	(432)	(1,049)
Other non-cash operating activities	1,212	2,189	1,819
Changes in operating assets and liabilities:			
Other assets	1,299	(5,789)	(2,619)
Deferred rent and lease incentives	—	—	(12)
Accounts payable and accrued liabilities	505	2,198	(3,739)
Other liabilities	(1,003)	42	459
Due to related parties	(495)	(977)	(688)
Net cash flows provided by operating activities - continuing operations	62,070	54,806	38,690
Depreciation and amortization	—	—	31,418
Amortization of premium for debt investments	—	—	431
Straight-line rent adjustments	—	(1,242)	199
Loss on extinguishment of debt	—	2,547	—
Write-off of deferred rent and lease related intangibles	103	67	—
Gain on sale of real estate	—	(336,074)	—
Changes in operating assets and liabilities			
Accounts payable and accrued liabilities	3	(6,265)	345
Other liabilities	1	(4,203)	(167)
Other operating activities	(12)	584	(4,296)
Net cash flows provided by operating activities - discontinued operations	1,049	5,144	28,570
Net cash flows provided by operating activities	63,119	59,950	67,260
Investing activities:			
Development of properties	—	—	(1,658)
Proceeds from sale of real estate	53,712	5,989	5,761
Capital expenditures	(12,231)	(6,409)	(10,106)
Other investing activities	41	1,676	173
Net cash provided by (used in) investing activities - continuing operations	41,522	1,256	(5,830)
Proceeds from sale of real estate	28,398	1,354,461	—
Capital expenditures	—	(1,466)	(2,472)
Development properties	—	—	(3,487)
Other investing activities	—	(723)	(2,593)
Net cash provided by (used in) investing activities - discontinued operations	28,398	1,352,272	(8,552)
Net cash provided by (used in) investing activities	$ 69,920	$ 1,353,528	$ (14,382)

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(in thousands)

	Year Ended December 31, 2020	2019	2018
Financing activities:			
Distributions to stockholders, net of distribution reinvestments	$ (35,627)	$ (394,892)	$ (59,051)
Redemptions of common stock	—	(23)	(40,153)
Distribution to holder of promoted interest	—	—	(955)
Draws under credit facilities	40,000	95,000	102,000
Repayments on credit facilities	(80,000)	(464,125)	(59,875)
Proceeds from mortgage and other notes payable	—	21,452	65,878
Principal payments on mortgage and other notes payable	(39,737)	(680,864)	(67,979)
Payment of loan costs	(122)	(6,413)	(1,590)
Other financing activities	(79)	(577)	(343)
Net cash flows used in financing activities	(115,565)	(1,430,442)	(62,068)
Net increase (decrease) in cash and restricted cash	17,474	(16,964)	(9,190)
Cash and restricted cash at beginning of period, including assets held for sale	48,537	65,501	74,691
Cash and restricted cash at end of period, including assets held for sale	$ 66,011	$ 48,537	$ 65,501
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	$ 23,181	$ 39,250	$ 48,589
Cash paid for income taxes, net	$ 737	$ 641	$ 807
Supplemental disclosure of non-cash investing and financing activities:			
Amounts incurred but not paid:			
Distribution to holder of promoted interest	$ —	$ —	$ 406

See accompanying notes to consolidated financial statements.

1. Organization

CNL Healthcare Properties, Inc. (the "Company") is a Maryland corporation that incorporated on June 8, 2010 and elected to be taxed as a real estate investment trust ("REIT") for United States ("U.S.") federal income tax purposes beginning with the year ended December 31, 2012. The Company has been and intends to continue to be organized and operate in a manner that allows it to remain qualified as a REIT for U.S. federal income tax purposes. The Company conducts substantially all of its operations either directly or indirectly through: (1) an operating partnership, CHP Partners, LP ("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 taxable REIT subsidiary ("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 CNL Healthcare Corp. ("Advisor"), which is an affiliate of CNL Financial Group, LLC ("Sponsor"). The Sponsor is an affiliate of CNL Financial Group, Inc. ("CNL"). 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 on possible strategic alternatives 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 operating, administrative and certain property management services are provided by affiliates of the Advisor. In addition, certain property management services are provided by third-party property managers.

On September 30, 2015, the Company completed its public offerings ("Offerings") having 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 registered on Form S-3 under the Securities Exchange Act of 1933 with the Securities and Exchange Commission ("SEC") for the sale of additional shares of common stock through its distribution reinvestment plan ("Reinvestment Plan"). Effective July 11, 2018, the Company suspended both its Reinvestment Plan and its stock redemption plan ("Redemption Plan").

In 2017, the Company began evaluating possible strategic alternatives to provide liquidity to the Company's stockholders. In April 2018, the Company's board of directors formed a special committee consisting solely of its 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"). Since 2018, the Special Committee has engaged KeyBanc Capital Markets Inc. to act as a financial advisor to the aforementioned Special Committee. As of December 2018, as part of executing on Possible Strategic Alternatives, the Company committed to a plan to sell 70 properties which included the sale of its 63 property MOB/Healthcare Portfolio (consisting of 53 medical office buildings ("MOBs"), five post-acute care facilities and five acute care hospitals across the US) plus seven skilled nursing facilities. During the year ended December 31, 2019, the Company sold 61 of the properties and during the year ended December 31, 2020, the Company sold seven additional properties. In September 2020, the Company decided to discontinue marketing for sale its Hurst Specialty Hospital due to financial difficulties experienced by the tenant of this property. As a result of discontinued marketing efforts, the Hurst Specialty Hospital no longer met the assets held for sale criteria. As of December 31, 2020, the Company had one acute care property classified as assets held for sale and had entered into a purchase and sale agreement with the existing tenant of this acute care property. The expected net sales proceeds approximated the net carrying value of the property. In January 2021, the Company completed the sale of this acute care property as described further in to Note 16. "Subsequent Events."

1. Organization (continued)

As of December 31, 2020, the Company's investment portfolio was geographically diversified with properties in 27 states and consisted of interests in 74 properties, comprising 71 senior housing communities, one acute care hospital, one vacant land parcel and one acute care facility classified as held for sale (which was sold in January 2021). 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.

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.

Risks and Uncertainties **—** The outbreak of the novel coronavirus ("COVID-19") pandemic around the globe continues to adversely impact commercial activity and has contributed to significant volatility in financial markets. Various states in which the Company owns properties have reacted by, among other things, instituting quarantines and move-in restrictions that have negatively impacted occupancy at seniors housing communities. While some of these restrictions have been relaxed, many of these restrictions remain in place. The pandemic has also resulted in the incurrence of costs related to disease control and containment. Such actions have and continue to create significant business disruption and have and continue to adversely impact the senior housing sector. COVID-19 has had a continued and prolonged adverse impact on economic and market conditions and has triggered a period of economic slowdown which could have a material adverse effect on the Company's results and financial condition.

The full impact of COVID-19 on the Company's financial condition and results of operations is uncertain and cannot be predicted at the current time as it depends on several factors beyond the control of the Company including, but not limited to (i) the uncertainty around the severity and duration of the outbreak, (ii) the effectiveness of the United States public health response, (iii) the pandemic's impact on the U.S. and global economies, (iv) the timing, scope and effectiveness of additional governmental responses to the pandemic and (v) the timing and speed of economic recovery, including the availability of a treatment or vaccination for COVID-19.

Government Grant Income **—** On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law which provided, among other things, for the establishment of a Provider Relief Fund under the direction of the Department of Health and Human Services ("HHS"). In September 2020, HHS announced that it expanded the eligibility to the Provider Relief Fund to include assisted living facilities as part of Phase 2 of the Provider Relief Fund. In October 2020, HHS announced that additional funds were made available for healthcare providers under Phase 3 of the Provider Relief Fund.

2. Summary of Significant Accounting Policies (continued)

Grant income is recognized upon receipt of grant income and when all the conditions of the grant have been met. During the year ended December 31, 2020, the Company received and recorded $5.3 million in Provider Relief Funds as other income in the accompanying consolidated statements of operations as all conditions of the grant had been met. During the year ended December 31, 2020, the Company received $0.4 million under the Medicare Accelerated and Advance Payment Program and recorded the $0.4 million advance in other liabilities in the accompanying consolidated balance sheet as of December 31, 2020.

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.

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.

Impairment of Real Estate Assets **—** Real estate assets are reviewed on an ongoing basis to determine whether there are any impairment indicators. Management considers potential impairment indicators to primarily include (i) changes in a real estate asset's operating performance, such as a current period net operating loss combined with a history of net operating losses, or changes in a lease which demonstrate potential future losses associated with the use of a real estate asset or (ii) a current expectation that, more likely than not, a real estate asset will be sold or otherwise disposed of significantly before the end of its previously estimated holding period. 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.

2. Summary of Significant Accounting Policies (continued)

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.

Assets Reclassified from Held for Sale to Held and Used — Upon management's determination to discontinue marketing properties for sale, the properties will no longer meet the held for sale criteria and are required to be reclassified as held and used at the lower of adjusted carrying value (carrying value of the properties prior to being classified as held for sale adjusted for any depreciation and/or amortization expense that would have been recognized had the properties been continuously classified as held and used) or its fair value at the date of the subsequent decision not to sell. If adjusted carrying value is determined to be lower, a catch-up depreciation and/or amortization adjustment will be recorded. The depreciation and/or amortization expenses that would have been recognized had the properties been continuously classified as held and used will be included as a component of depreciation and amortization expense in the accompanying consolidated statements of operations. If fair value is determined to be lower, the Company will record a loss on reclassification which will be included in income or loss from continuing operations in the accompanying consolidated statements of operations.

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, 2020, 2019 and 2018, the Company incurred interest expense and loan cost amortization of approximately $24.3 million, $54.3 million and $75.0 million, respectively, of which approximately $0.0 million, $0.03 million and $0.06 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, 2020, 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, 2020 and 2019, the accumulated amortization of loan costs was approximately $8.3 million and $8.1 million, respectively.

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 amortizes these costs 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 any unamortized deferred lease-related costs not deemed to be recoverable.

Revenue Recognition **—** Rental income and related revenues for operating leases are recognized based on the assessment of collectability of lease payments. When collectability is probable at commencement of the lease, lease income is recognized on an accrual basis and includes rental income that is recorded on the straight-line basis over the term of the lease. Collectability is reassessed during the lease term. When collectability of lease payments is no longer probable, lease income is recorded on a cash basis and limited to the amount of lease payments collected. In addition, lease related costs (the deferred rent from prior GAAP straight-line adjustments, unamortized lease costs and other lease related intangibles) are written-off when the Company determines that these assets are no longer realizable.

Rental income and related revenues recorded on an accrual basis include rental income that is recorded on the straight-line basis over the terms of the leases. 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 include 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 statements 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.

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.

The estimated fair value of accounts payable and accrued liabilities approximates the carrying value as of December 31, 2020 and 2019 because of the relatively short maturities of the obligations.

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.

2. Summary of Significant Accounting Policies (continued)

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.

Net Income (Loss) per Share — Net income (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 10. "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 distributions paid with respect to such shares. All 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 distributions 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.

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 formed subsidiaries which elected 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. A valuation allowance is provided if we believe it is more likely than not that all or some portion of the deferred tax asset will not be realized. Any increase or decrease in the valuation allowance that results from a change in circumstances, and that causes us to change our judgment about the realizability of the related deferred tax asset, is included in the tax provision when such changes occur.

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.

2. Summary of Significant Accounting Policies (continued)

Adopted 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 was effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2019. The Company adopted this ASU on January 1, 2020, the adoption of which did not have a material impact on the Company’s consolidated results of operations or cash flows.

Impact of Recent Accounting Pronouncements **—** In Q1 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848). ASU 2020-04 contains practical expedients for reference rate reform related activities that impact debt, leases, derivatives and other contracts. The guidance in ASU 2020-04 is optional and may be elected over time as reference rate reform activities occur. During the year ended December 31, 2020, the Company elected to apply the hedge accounting expedients related to probability and the assessments of effectiveness for future LIBOR-indexed cash flows to assume that the index upon which future hedged transactions will be based matches the index on the corresponding derivatives. Application of these expedients preserves the presentation of derivatives consistent with past presentation. The Company continues to evaluate the impact of the guidance and may apply other elections as applicable as additional changes in the market occur.

In April 2020, the FASB issued a Staff Question-and-Answer (“Q&A”) to clarify whether lease concessions related to the effects of COVID-19 require the application of the lease modification guidance under the new lease standard, which the Company adopted on January 1, 2019. Under the new leasing standard, an entity would have to determine, on a lease by lease basis, if a lease concession was the result of a new arrangement reached with the tenant, which would be accounted for under the lease modification framework, or if the lease concession was under the enforceable rights and obligations that existed in the original lease, which would be accounted for outside the lease modification framework. The Q&A provides entities with the option to elect to account for lease concessions as though the enforceable rights and obligations existed in the original lease as long as the total cash flows from the modified lease are substantially similar to the cash flows in the original lease. The Company elected this option and therefore, to the extent that a rent concession is granted as a deferral of payments, but total payments are substantially the same, the Company will account for the concession as if no change has been made to the original lease.

3. Revenue

The following tables represent the disaggregated revenue for resident fees and services during the years ended December 31, 2020, 2019 and 2018:

	Years Ended December 31,								
	Number of Units			**Revenue (in millions)**			**Percentage of Revenues**		
Resident fees and services:	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**
Independent living	2,261	2,261	2,261	$ 72.6	$ 74.3	$ 71.7	25.9 %	25.8 %	25.9 %
Assisted living	2,966	2,966	2,966	138.1	140.5	137.6	49.2 %	48.7 %	49.7 %
Memory care	853	853	853	57.7	59.4	54.4	20.5 %	20.6 %	19.7 %
Other revenues	—	—	—	12.5	14.1	12.9	4.4 %	4.9 %	4.7 %
	6,080	6,080	6,080	$ 280.9	$ 288.3	$ 276.6	100.0 %	100.0 %	100.0 %

4. Real Estate Assets, net

The gross carrying amount and accumulated depreciation of the Company's real estate assets as of December 31, 2020 and 2019 are as follows, excluding assets held for sale (in thousands):

	As of December 31,	
	2020	**2019**
Land and land improvements	$ 132,663	$ 132,453
Building and building improvements	1,501,107	1,498,297
Furniture, fixtures and equipment	94,141	86,543
Less: accumulated depreciation	(335,051)	(284,638)
Real estate investment properties, net	$ 1,392,860	$ 1,432,655

As described in Note 1. "Organization," as part of exploring Possible Strategic Alternatives, during the year ended December 31, 2018, the Company committed to a plan to sell 70 properties, which included seven skilled nursing facilities comprised of six properties (the "Perennial Communities") and the Welbrook Grand Junction property. Management of the Company determined that the sale of these seven skilled nursing facilities would not cause a strategic shift in the Company's operations and that the sale of these seven properties were not considered individually significant; therefore, these properties did not qualify as discontinued operations. Refer to Note 6. "Assets and Associated Liabilities Held For Sale and Discontinued Operations" for additional information on the remaining properties that qualified as discontinued operations.

During the year ended December 31, 2019, the Company sold the Welbrook Grand Junction property and recorded no gain or loss from continuing operations for financial statement purposes related to the sale of this property. During the year ended December 31, 2020, the Company sold the six properties comprising the Perennial Communities and recorded a gain on sale from continuing operations of approximately $1.1 million for financial reporting purposes.

In September 2020, the Company discontinued marketing efforts related to the sale of the Hurst Specialty Hospital, an acute care property that the Company had previously classified as assets held for sale, due to financial difficulties of the tenant and their inability to remain current under the terms of their triple net lease. As a result of discontinuing marketing efforts, the Hurst Specialty Hospital no longer met the assets held for sale criteria and the Company recorded an adjustment of $1.5 million in September 2020, representing the catch up in depreciation expense that would have been recognized had the Hurst Specialty Hospital been continuously classified as held and used. In addition, the Company determined an estimate of fair value of the Hurst Specialty Hospital in order to reclassify the property as held and used at the lower of adjusted carrying value or fair value. The Company discounted the net expected cash flows from the property, plus an estimate of sales proceeds from the ultimate disposition of this property, to estimate the fair value of the Hurst Specialty Hospital. The Company used Level 3 unobservable inputs that included estimates of expected cash flows and a capitalization rate based on appraisal information from an independent third-party valuation firm engaged as a valuation advisor and comparable sales/broker transactions. The estimated fair value was higher than the adjusted carrying value of the property. The Company reclassified the Hurst Specialty Hospital as held and used at the adjusted carrying value, which was lower than its fair value, resulting in no loss on reclassification of this property. The Company recorded all operating results from the Hurst Specialty Hospital as income or loss from continuing operations for all periods presented.

During the year ended December 31, 2020, the tenant of the Hurst Specialty Hospital was unable to remain current under its lease obligation and the Company established rent reserves of $0.8 million for uncollected rents as of December 31, 2020. The Company assessed that collectability of lease payments was not probable and recorded rental income on a cash basis. The Company also recorded a write-off of $2.5 million, representing the deferred rent from prior GAAP straight-line adjustments and unamortized lease costs, because the Company determined that these assets were not realizable due to continued financial difficulties of the tenant.

4. Real Estate Assets, net (continued)

During the year ended December 31, 2018, as part of committing to a plan to sell 70 properties, the Company evaluated each of the properties classified as held for sale to determine whether it was likely that the carrying value of the Company's properties would be recoverable. The Level 3 unobservable inputs used in determining the fair value of the real estate properties included, but were not limited to, appraisal information from an independent third-party valuation firm engaged as a valuation advisor, comparable sales transactions and other information from financial advisors of the Company and/or potential brokers/buyers, as applicable. As a result of this analysis, the Company recorded impairment provisions during the year ended December 31, 2018 related to its Hurst Specialty Hospital and its Welbrook Grand Junction property of approximately $4.4 million and $7.9 million, respectively. These impairment provisions from continuing operations were recorded to write-off the associated assets in excess of the estimated net sales proceeds, as it was determined that the carrying value of these properties would not be recoverable. The Company did not record impairment provisions from continuing operations during the years ended December 31, 2020 and 2019.

Depreciation expense on the Company's real estate investment properties, net was approximately $51.4 million, $49.4 million and $51.6 million for the years ended December 31, 2020, 2019 and 2018, respectively. Depreciation expense for the year ended December 31, 2020 includes the $1.5 million depreciation catch up adjustment described above and depreciation through the determination date on the assets held for sale.

5. Intangibles, net

The gross carrying amount and accumulated amortization of the Company's intangible assets as of December 31, 2020 and 2019 are as follows (in thousands):

	As of December 31,	
	2020	**2019**
In-place lease intangibles	$ 3,944	$ 83,275
Less: accumulated depreciation	(3,118)	(82,055)
Intangible assets, net	$ 826	$ 1,220

For the years ended December 31, 2020, 2019 and 2018, amortization on the Company's intangible assets was approximately $0.4 million, $0.4 million and $2.5 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, 2020 is 2.1 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, 2020 is as follows (in thousands):

2021	$ 394
2022	253
2023	74
2024	74
2025	31
Thereafter	—
	$ 826

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

As described in Note 1. "Organization," as part of executing on Possible Strategic Alternatives, during 2018, the Company committed to a plan to sell a total of 70 properties, including: (1) the 63 property MOB/Healthcare Portfolio, (2) the six properties comprising the Perennial Communities and (3) Welbrook Grand Junction. During the year ended December 31, 2019, the Company completed the sale of 61 properties and as of December 31, 2019 had nine properties classified as held for sale. As described in Note 4. "Real Estate Asset, net," in September 2020, the Company determined that the Hurst Specialty Hospital, which was part of the MOB/Healthcare Portfolio, no longer met the held for sale criteria and reclassified the Hurst Specialty Hospital to held and used for all periods presented. During the year ended December 31, 2020, the Company completed the sale of seven properties, which included one post-acute care property from the MOB Healthcare Portfolio, and the Perennial Communities.

As of December 31, 2020, the Company had one acute care property classified as held for sale and had entered into a purchase and sale agreement for the sale of this property for a gross sales price of $7.75 million. The Company sold this property in January 2021. See Note 16 "Subsequent Events" for additional information.

As of December 31, 2020, the one acute care property classified as assets held for sale and liabilities associated with those assets held for sale (which was sold in January 2021) consisted of the following (in thousands):

	As of December 31, 2020		
	MOB/Healthcare Portfolio	Other	Total
Real estate held for sale, net	$ 5,922	$ —	$ 5,922
Intangibles, net	1,481	—	1,481
Other assets	18	—	18
Assets held for sale, net	$ 7,421	$ —	$ 7,421
Accounts payable and accrued liabilities	$ 8	$ —	$ 8
Other liabilities	2	—	2
Liabilities associated with assets held for sale	$ 10	$ —	$ 10

As of December 31, 2019, the eight 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	$ 28,307	$ 46,908	$ 75,215
Intangibles, net	6,252	800	7,052
Deferred rent and lease incentives	1,345	4,952	6,297
Other assets	6	68	74
Restricted cash	94	72	166
Assets held for sale, net	$ 36,004	$ 52,800	$ 88,804
Accounts payable and accrued liabilities	$ 4	$ 3	$ 7
Other liabilities	—	684	684
Liabilities associated with assets held for sale	$ 4	$ 687	$ 691

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 62 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 Company sold one property and 60 properties during the years ended December 31, 2020 and 2019, respectively. The following table is a summary of income from discontinued operations for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	Years Ended December 31,		
	2020	**2019**	**2018**
Revenues:			
Rental income and related revenues	$ 1,266	$ 46,073	$ 112,241
Operating expenses:			
Property operating expenses	7	11,333	29,174
General and administrative	138	411	1,253
Asset management fees	139	4,689	11,689
Property management fees	28	1,257	3,679
Financing coordination fees	—	—	2,326
Depreciation and amortization	—	—	31,418
Total operating expenses	312	17,690	79,539
Gain on sale of real estate	—	336,074	—
Operating income	954	364,457	32,702
Other income (expense):			
Interest and other income (expense)	—	56	109
Interest expense and loan cost amortization	—	(14,618)	(32,178)
Total other income (expense)	—	(14,562)	(32,069)
Income before income taxes	954	349,895	633
Income tax (expense) benefit	—	(165)	7
Income from discontinued operations	$ 954	$ 349,730	$ 640

7. Operating Leases

As of December 31, 2020, excluding the one remaining property 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, 2020, the total annualized property tax assessed on these properties is approximately $3.2 million.

As of December 31, 2020, excluding the one remaining property classified as held for sale, the Company's triple-net operating leases had a weighted average remaining lease term of 4.5 years based on annualized base rents expiring between 2022 and 2031, 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.

7. Operating Leases (continued)

The following are future minimum lease payments for the Company's 15 senior housing properties and the Hurst Specialty Hospital to be received under non-cancellable operating leases for the five years and thereafter, in the aggregate, as of December 31, 2020, and excludes the one remaining property classified as held for sale (in thousands):

2021	$ 31,346
2022	23,804
2023	23,073
2024	23,445
2025	20,371
Thereafter	25,168
	$ 147,207

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, 2020 and 2019, the Company had two subsidiaries 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.

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, 2020 and 2019 are as follows (in thousands):

	As of December 31,	
	2020	**2019**
Assets:		
Real estate investment properties, net	$ 43,890	$ 45,329
Cash	$ 505	$ 1,024
Other assets	$ 524	$ 577
Restricted cash	$ 102	$ 76
Liabilities:		
Mortgages and other notes payable, net	$ 29,158	$ 29,148
Accounts payable and accrued liabilities	$ 490	$ 1,286
Other liabilities	$ 242	$ 219

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 $13.3 million as of December 31, 2020. The Company's exposure is limited because of the non-recourse nature of the borrowings of the VIEs.

9. Indebtedness

The following table provides details of the Company's indebtedness as of December 31, 2020 and 2019, (in thousands):

	As of December 31,	
	2020	2019
Mortgages payable and other notes payable:		
Fixed rate debt	$ 337,519	$ 368,974
Variable rate debt (1)	—	8,282
Mortgages and other notes payable (2)	337,519	377,256
Premium (3)	101	142
Loan costs, net	(935)	(1,470)
Total mortgages and other notes payable, net	336,685	375,928
Credit facilities:		
Revolving Credit Facility(1)(4)	—	40,000
Term Loan Facility(1)	265,000	265,000
Loan costs, net related to Term Loan Facilities	(1,577)	(2,050)
Total credit facilities, net	263,423	302,950
Total indebtedness, net	$ 600,108	$ 678,878

FOOTNOTES:

(1) As of December 31, 2020 and 2019, the Company had entered into interest rate caps with notional amounts of approximately $225.0 million and $281.0 million, respectively. Refer to Note 11. "Derivative Financial Instruments" for additional information.

(2) As of December 31, 2020 and 2019, the Company's mortgages and other notes payable are collateralized by 29 and 32 properties, respectively, with total carrying value of approximately $497.4 million and $567.8 million, respectively.

(3) Premium is reflective of the Company recording mortgage note payables assumed at fair value on the respective acquisition dates.

(4) As of December 31, 2020 and 2019, the Company had undrawn availability under the applicable revolving credit facility of approximately $150.2 million and $181.7 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.

Concurrently, in May 2019, the Company entered into new unsecured credit facilities, which included: (1) a $250 million senior unsecured revolving credit facility ("Revolving Credit Facility") and (2) a $265 million senior unsecured term loan facility ("Term Loan Facility" and together with the Revolving Credit Facility, "Credit Facilities"). The Revolving Credit Facility has an initial four-year term through May 2023, plus one 12-month extension option, and the Term Loan Facility has an initial five-year term through May 2024. The 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 10. "Related Party Arrangements" for additional information.

9. Indebtedness (continued)

During the year ended December 31, 2019, the Company repaid approximately $95.4 million in mortgage and construction loans related to several properties. 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 loans were scheduled to mature during 2019 and 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.

During the year ended December 31, 2020, the Company repaid $39.7 million of indebtedness, which included the Primrose II Communities and the Fieldstone at Pear Orchard property, both of which matured during 2020. In April 2020, the Company borrowed $40 million under its Revolving Credit Facility as a precautionary measure to increase liquidity and preserve financial flexibility in light of COVID-19 and in September 2020 repaid $80 million under its Revolving Credit Facility.

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, 2020 (in thousands):

2021	$ 11,315
2022	282,121
2023	23,417
2024	285,666
2025	—
Thereafter	—
	$ 602,519

The Company had liquidity of $211.7 million as of December 31, 2020 (consisting of $61.5 million in cash and $150.2 million of availability under its Revolving Credit Facility) and is well positioned to manage its near-term debt maturities. The Company has $11.3 million of scheduled payments coming due during the year ended December 31, 2021 and has a material maturity in January of $236.4 million, consisting of debt collateralized by 22 properties. The Company has had early discussions with its lenders about repayment or refinancing options upon maturity. The Company has several other options, including but not limited to, refinancing the facility with the existing lender or another lending institution as a secured loan facility, liquidating all or a portion of the 22 properties to satisfy the obligation, or adding all or a portion of the 22 properties to the existing 2019 Credit Facilities and repaying the balance with a draw on the 2019 Revolving Credit Facility. The addition of all 22 properties to the borrowing base of the 2019 Credit Facilities would result in $100 million of additional availability under the 2019 Revolving Credit Facility. The Company could also use the accordion feature of its 2019 Credit Facilities to increase the current $515 million commitment to a higher amount.

9. Indebtedness (continued)

The following table details the Company's mortgages and other notes payable as of December 31, 2020 and 2019, (in thousands):

Property and Loan Type	Interest Rate at December 31, 2020 [1]	Payment Terms	Maturity Date [2]	December 31, 2020	December 31, 2019
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
Pacific Northwest Communities; Mortgage Loans	4.30% per annum	Monthly principal and interest payments based on a 25-year amortization schedule	1/5/22	189,938	196,598
Capital Health Communities; Mortgage Loans [3]	[3]	Monthly principal and interest payments based on a 25-year amortization schedule	1/5/22	55,925	58,387
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	46,317	47,557
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	24,065	24,625
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	21,274
		Total fixed rate debt		337,519	368,974
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
		Total variable rate debt		—	8,282
		Total mortgages and other notes payable, net		$ 337,519	$ 377,256

FOOTNOTES:

(1) The 30-day was approximately 0.14% and 1.764%, respectively, as of December 31, 2020 and 2019.

(2) Represents the initial maturity date (or, as applicable, the maturity date as extended).

(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 30, 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 May 31, 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.

9. Indebtedness (continued)

The following table provides the details of the fair market value and carrying value of the Company's indebtedness as of December 31, 2020 and 2019 (in millions):

	December 31, 2020		December 31, 2019	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Mortgages and other notes payable, net	$ 339.4	$ 336.7	$ 381.2	$ 375.9
Credit facilities	$ 265.0	$ 263.4	$ 305.0	$ 303.0

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.

Generally, the loan agreements for the Company's 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. As of December 31, 2020, the Company's 22 properties that are cross collateralized in a secured debt transaction did not achieve a minimum debt service coverage covenant. The missed covenant requires that the annual taxes and insurance premiums for each of the 22 properties (estimated at approximately $6.0 million in the aggregate for all 22 properties) be escrowed monthly, until such time that the covenant is achieved. In accordance with the cure provision under its loan agreement, the Company is working with its lender to establish the cash escrow accounts and anticipates escrowing the approximate $6.0 million over the next twelve months with its lender.

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, 2020, the Company was in compliance with all financial covenants related to its Credit Facilities.

10. 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.

10. Related Party Arrangements (continued)

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.

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, non-compounded 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. The Company did not incur operating expenses in excess of the Limitation during the Expense Years ended December 31, 2020, 2019 and 2018.

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.

10. Related Party Arrangements (continued)

Amended and Restated Expense Support Agreement — Pursuant to the Amended and Restated 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 year, over (b) aggregate MFFO, each as defined in the Amended and Restated Expense Support Agreement. The Restricted Stock is subordinated and forfeited to the extent that shareholders do not receive their invested capital plus a 6% cumulative non-compounded annual return upon ultimate liquidity of the Company. Any amounts settled, and for which restricted stock shares were issued pursuant to the Amended and Restated Expense Support Agreement, have been permanently settled and the Company has no further obligation to pay such amounts.

Under the terms of the Amended and Restated 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 Amended and Restated 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, 2020, 2019 and 2018, 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, 2020, 2019 and 2018, and related amounts unpaid as of December 31, 2020 and 2019 are as follows (in thousands):

	Years Ended December 31,			Unpaid amounts [1] as of December 31,	
	2020	**2019**	**2018**	**2020**	**2019**
Reimbursable expenses:					
Operating expenses [2]	$ 3,517	$ 5,066	$ 6,203	$ 275	$ 698
	3,517	5,066	6,203	275	698
Investment services fees [3]	—	—	60	—	—
Disposition fee [4]	143	3,031	58	—	—
Financing coordination fees [5]	61	5,553	2,326	—	—
Property management fees [6]	—	—	2,323	—	—
Asset management fees [7]	18,190	23,281	30,385	1,505	1,577
	$ 21,911	$ 36,931	$ 41,355	$ 1,780	$ 2,275

10. Related Party Arrangements (continued)

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.

(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. There were no investment service fees incurred for the years ended December 31, 2020 and 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 years ended December 31, 2020 and 2018, the Company incurred approximately $0.1 million and $2.3 million, respectively, in financing coordination fees related to the refinancing of the loans associated with certain operating properties, all of which were capitalized as loan costs and reduced mortgages and other notes payable, net in the accompanying consolidated balance sheets.

(6) For the year ended December 31, 2018, the Company incurred approximately $2.3 million in property and construction management fees payable to the Property Manager of which approximately $5,000 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, 2020, 2019 and 2018, the Company incurred approximately $18.2 million, $23.3 million and $30.4 million, respectively, in asset management fees payable to the Advisor. No expense support was received for the years ended December 31, 2020, 2019 and 2018. There was approximately $11,000 in asset management fees that were capitalized and included in real estate under development in the accompanying consolidated balance sheets for the year ended December 31, 2018. There were no asset management fees capitalized for the years ended December 31, 2020 and 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, 2020, 2019 and 2018. As of December 31, 2020, $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, 2020.

Cash distributions paid on Restricted Stock shares for the years ended December 31, 2020, 2019 and 2018 were $0.273 million, $3.027 million and $0.630 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.

11. 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, 2020 and 2019 (in thousands):

						Fair value asset (liability) as of	
Notional Amount	Strike [(1)]	Credit Spread [(1)]	Trade date	Forward date	Maturity date	December 31, 2020	December 31, 2019
$ 10,500 [(2)]	3.3%	— %	2/28/2019	3/1/2019	9/1/2021	$ —	$ —
$ 231,000 [(2)]	2.0%	— %	12/12/2019	12/20/2019	12/31/2020	$ —	$ 2
$ 225,000 [(2)]	0.8%	— %	8/12/2020	12/31/2020	12/31/2021	$ 2	$ —

FOOTNOTES:

(1) The all-in rates are equal to the sum of the Strike and Credit Spread detailed above.

(2) 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.

12. 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 May 2016, when the Watercrest at Katy development opened to residents, and concluding in May 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, as part 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 year ended December 31, 2018, the Company received proceeds through its Reinvestment Plan of approximately $22.0 million.

12. Equity (continued)

Distributions — For the years ended December 31, 2020, 2019 and 2018, the Company declared cash distributions of $35.6 million, $394.9 million and $81.1, 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.

The tax composition of the Company's distributions declared for the years ended December 31, 2020, 2019 and 2018 were as follows:

	Years Ended December 31,		
	2020	**2019**	**2018**
Ordinary income	21.88%	0.0%	0.0%
Capital gain	0.62%	42.85%	0.0%
Unrecaptured Sec. 1250 gain	11.15%	20.10%	0.0%
Return of capital	66.35%	37.05%	100.0%

Redemptions — In July 2018, as part of the Company's decision to proceed with the exploration of Possible Strategic Alternatives, the Company suspended 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 years ended December 31, 2020 and 2019. For the year ended December 31, 2018, the Company received requests for the redemption of common stock under its Redemption Plan of approximately 4.4 million shares, of which 2.8 million were approved for redemption at an average price of $10.14, for a total of approximately $28.4 million.

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, 2020, 2019 and 2018, 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,		
	2020	**2019**	**2018**
Dogwood Forest of Grayson	—	406	(406)
	$ —	$ 406	$ (406)

12. 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, 2020, 2019 and 2018 (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,**		
	2020	**2019**	**2018**		**2020**	**2019**	**2018**
Interest rate swaps	$ —	$ (846)	$ 1,219	Interest expense and loan cost amortization	$ —	$ 921	$ 2,457
Interest rate caps	11	(134)	690	Interest expense and loan cost amortization	(44)	(361)	(1,957)
Reclassification of interest rate swaps upon derecognition	—	(509)	253	Interest expense and loan cost amortization	—	509	(253)
Reclassification of interest rate caps upon derecognition	2	265	—	Interest expense and loan cost amortization	(2)	(265)	—
Interest rate cap held by unconsolidated joint venture	(12)	11	—	Not applicable	(3)	(11)	—
Total	$ 1	$ (1,213)	$ 2,162		$ (49)	$ 793	$ 247

13. Income Taxes

For the years ended December 31, 2020, 2019 and 2018, 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 for the years ended December 31, 2020, 2019 and 2018, excluding amounts related to discontinued operations, were as follows (in thousands):

	Years Ended December 31,		
	2020	**2019**	**2018**
Current:			
Federal	$ 51	$ 51	$ 113
State	(596)	(580)	(490)
Total current expense	(545)	(529)	(377)
Deferred:			
Federal	(552)	(1,562)	(3,333)
State	(1)	(120)	66
Total deferred expense	(553)	(1,682)	(3,267)
Income tax expense	$ (1,098)	$ (2,211)	$ (3,644)

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, 2020 and 2019 are as follows:

	2020	**2019**
Carryforwards of net operating loss	$ 4,068	$ 3,653
Minimum tax credit carryforward	—	59
Prepaid rent	1,026	1,648
Valuation allowance	(1,464)	(1,096)
Deferred tax assets, net	$ 3,630	$ 4,264

A reconciliation of the income tax expense computed at the statutory federal tax rate on income before income taxes is as follows (in thousands):

	Years Ended December 31,					
	2020		**2019**		**2018**	
Tax (expense) benefit computed at federal statutory rate	$ (873)	(21.00) %	$ (898)	(21.00)%	$ 4,651	21.00 %
Impact of REIT election	303	7.28 %	(675)	(15.78)%	(7,980)	(36.03)%
State income tax expense net of federal benefit	(160)	(3.84) %	(488)	(11.41)%	(412)	(1.86)%
Effect of change in valuation allowance	(368)	(8.86) %	(150)	(3.51)%	97	0.44 %
Income tax expense	$ (1,098)	(26.42) %	$ (2,211)	(51.70)%	$ (3,644)	(16.45)%

13. Income Taxes (continued)

The Company's TRS entities had net operating loss carryforwards for federal and state purposes of approximately $12.4 million and $12.3 million as of December 31, 2020 and 2019, respectively, to offset future taxable income. If not utilized, the federal net operating loss carryforwards will begin to expire in 2036, and the state net operating loss carryforwards will begin to expire in 2021. The Company has $0.4 million net operating loss carry-forwards with an indefinite carryforward period. 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. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted into law. Although the CARES Act contains many income tax relief provisions, they are not estimated to have a material impact on the Company. As required under U.S. GAAP, the effects of tax law changes are recognized in the period of enactment.

14. 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.

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. None of the established performance metrics were met or probable of being met as of December 31, 2020.

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 10. "Related Party Arrangements" for information on distributions declared related to these Restricted Stock shares.

15. Concentration of Credit Risk

For the years ended December 31, 2020, 2019 and 2018, the Company had a geographical concentration accounting for 10% or more of its total revenues, excluding the properties classified as discontinued operations, as follows:

	Type of Concentration	**Years Ended December 31, 2020**	**2019**	**2018**
State of Texas [(1)]	Geographical	21.0%	20.5%	20.4%

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.

16. Subsequent Events

In January 2021, the Company sold the acute care property it had classified as held for sale as of December 31, 2020. The Company received net sales proceeds of $7.4 million and did not record any gain or loss on sale of this property in January 2021.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018 (in thousands)

Year	Description	Balance at Beginning of Year	Charged to Costs and Expenses	Charged to Other Accounts	Balance at End of Year
2018	Deferred tax asset valuation allowance	$ (1,087)	$ (829)	$ —	$ (1,916)
	Allowance for doubtful accounts	(2,350)	(1,489)	—	(3,839)
		$ (3,437)	$ (2,318)	$ —	$ (5,755)
2019	Deferred tax asset valuation allowance	$ (1,916)	$ —	$ 808	$ (1,108)
	Allowance for doubtful accounts	(3,839)	—	1,912	(1,927)
		$ (5,755)	$ —	$ 2,720	$ (3,035)
2020	Deferred tax asset valuation allowance	$ (1,108)	$ —	$ (357)	$ (1,465)
	Allowance for doubtful account	(1,927)	(2,252)	1,156	(3,023)
		$ (3,035)	$ (2,252)	$ 799	$ (4,488)

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 2020 (in thousands)

		Initial Costs		Costs Capitalized Subsequent to Acquisition			Gross Amounts at which Carried at Close of Period (2)							
Property/Location	**Encum-brances**	**Land & Land Improve-ments**	**Building and Building Improve-ments**	**Land & Land Improve-ments**	**Building and Building Improve-ments**	**Construc-tion in Process**	**Land & Land Improve-ments**	**Building and Building Improve-ments**	**Construc-tion in Process**	**Total**	**Accumu-lated Depreci-ation**	**Date of Construction**	**Date Acquired**	**Life on which depreciation in latest income statement is computed**
Primrose Retirement Community of Casper Casper, Wyoming	$ 10,707	$ 1,910	$ 16,310	$ 30	$ 296	$ —	$ 1,940	$ 16,606	$ —	$ 18,546	$ (3,910)	2004	2/16/2012	(1)
Primrose Retirement Community of Grand Island Grand Island, Nebraska	$ 7,553	$ 719	$ 12,140	$ 56	$ —	$ —	$ 775	$ 12,140	$ —	$ 12,915	$ (2,972)	2005	2/16/2012	(1)
Primrose Retirement Community of Mansfield Mansfield, Ohio	$ 10,276	$ 650	$ 16,720	$ 229	$ 71	$ —	$ 879	$ 16,791	$ —	$ 17,670	$ (4,133)	2007	2/16/2012	(1)
Primrose Retirement Community of Marion Marion, Ohio	$ 8,524	$ 889	$ 16,305	$ —	$ —	$ —	$ 889	$ 16,305	$ —	$ 17,194	$ (3,929)	2006	2/16/2012	(1)
Sweetwater Retirement Community Billings, Montana	$ 9,257	$ 1,578	$ 14,205	$ 19	$ —	$ —	$ 1,597	$ 14,205	$ —	$ 15,802	$ (3,339)	2006	2/16/2012	(1)
HarborChase of Villages Crossing Lady Lake, Florida ("The Villages")	$ —	$ 2,165	$ —	$ 996	$ 15,452	$ —	$ 3,161	$ 15,452	$ —	$ 18,613	$ (2,952)	2013	8/29/2012	(1)
Primrose Retirement Community Cottages Aberdeen, South Dakota	$ —	$ 311	$ 3,794	$ —	$ —	$ —	$ 311	$ 3,794	$ —	$ 4,105	$ (842)	2005	12/19/2012	(1)
Primrose Retirement Community of Council Bluffs Council Bluffs, Iowa (“Omaha”)	$ —	$ 1,144	$ 11,117	$ 5	$ 3	$ —	$ 1,149	$ 11,120	$ —	$ 12,269	$ (2,537)	2008	12/19/2012	(1)
Primrose Retirement Community of Decantur Decatur, Illinois	$ —	$ 513	$ 16,706	$ —	$ 154	$ —	$ 513	$ 16,860	$ —	$ 17,373	$ (3,678)	2009	12/19/2012	(1)
Primrose Retirement Community of Lima Lima, Ohio	$ —	$ 944	$ 17,115	$ 8	$ 4	$ —	$ 952	$ 17,119	$ —	$ 18,071	$ (3,728)	2006	12/19/2012	(1)
Primrose Retirement Community of Zanesville Zanesville, Ohio	$ —	$ 1,184	$ 17,292	$ —	$ 67	$ —	$ 1,184	$ 17,359	$ —	$ 18,543	$ (3,787)	2008	12/19/2012	(1)
Capital Health of Symphony Manor Baltimore, Maryland	$ 12,995	$ 2,319	$ 19,444	$ —	$ 259	$ —	$ 2,319	$ 19,703	$ —	$ 22,022	$ (4,202)	2011	12/21/2012	(1)
Curry House Assisted Living & Memory Care Cadillac, Michigan	$ 6,498	$ 995	$ 11,072	$ 15	$ 2	$ —	$ 1,010	$ 11,074	$ —	$ 12,084	$ (2,407)	1966	12/21/2012	(1)
Tranquillity at Fredericktowne Frederick, Maryland	$ 19,150	$ 808	$ 14,291	$ —	$ 6,110	$ —	$ 808	$ 20,401	$ —	$ 21,209	$ (4,272)	2000	12/21/2012	(1)
Brookridge Heights Assisted Living & Memory Care Marquette, Michigan	$ 11,464	$ 595	$ 11,339	$ (17)	$ 4,766	$ —	$ 578	$ 16,105	$ —	$ 16,683	$ (3,525)	1998	12/21/2012	(1)
Woodholme Gardens Assisted Living & Memory Care Pikesville, Maryland (“Baltimore”)	$ 5,819	$ 1,603	$ 13,472	$ 54	$ 8	$ —	$ 1,657	$ 13,480	$ —	$ 15,137	$ (2,931)	2010	12/21/2012	(1)

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 2020 (in thousands)

		Initial Costs		Costs Capitalized Subsequent to Acquisition			Gross Amounts at which Carried at Close of Period [2]							
Property/Location	Encum-brances	Land & Land Improve-ments	Building and Building Improve-ments	Land & Land Improve-ments	Building and Building Improve-ments	Construc-tion in Process	Land & Land Improve-ments	Building and Building Improve-ments	Construc-tion in Process	Total	Accumu-lated Depreci-ation	Date of Construction	Date Acquired	Life on which depreciation in latest income statement is computed
HarborChase of Jasper Jasper, Alabama	$ —	$ 355	$ 6,358	$ 7	$ 56	$ —	$ 362	$ 6,414	$ —	$ 6,776	$ (1,262)	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	$ 501	$ 12,655	$ —	$ 5,493	$ 61,473	$ —	$ 66,966	$ (11,232)	2009	8/29/2013	(1)
Town Village Oklahoma City, Oklahoma	$ —	$ 1,020	$ 19,847	$ 88	$ 1,616	$ —	$ 1,108	$ 21,463	$ —	$ 22,571	$ (4,199)	2004	8/29/2013	(1)
Prestige Senior Living Beaverton Hills Beaverton, Oregon	$ 8,178	$ 1,387	$ 10,324	$ 13	$ —	$ —	$ 1,400	$ 10,324	$ —	$ 11,724	$ (1,970)	2000	12/2/2013	(1)
Prestige Senior Living High Desert Bend, Oregon	$ 7,164	$ 835	$ 11,252	$ 17	$ 53	$ —	$ 852	$ 11,305	$ —	$ 12,157	$ (2,240)	2003	12/2/2013	(1)
MorningStar of Billings Billings, Montana	$ 17,938	$ 4,067	$ 41,373	$ 54	$ 325	$ —	$ 4,121	$ 41,698	$ —	$ 45,819	$ (8,354)	2009	12/2/2013	(1)
MorningStar of Boise Boise, Idaho	$ 19,224	$ 1,663	$ 35,752	$ 18	$ 251	$ —	$ 1,681	$ 36,003	$ —	$ 37,684	$ (6,812)	2007	12/2/2013	(1)
Prestige Senior Living Huntington Terrace Gresham, Oregon (“Portland”)	$ 9,181	$ 1,236	$ 12,083	$ 2	$ 64	$ —	$ 1,238	$ 12,147	$ —	$ 13,385	$ (2,353)	2000	12/2/2013	(1)
MorningStar of Idaho Falls Idaho Falls, Idaho	$ 15,995	$ 2,006	$ 40,397	$ 64	$ 346	$ —	$ 2,070	$ 40,743	$ —	$ 42,813	$ (7,857)	2009	12/2/2013	(1)
Prestige Senor Living Arbor Place Medford, Oregon	$ 7,553	$ 355	$ 14,083	$ 11	$ 46	$ —	$ 366	$ 14,129	$ —	$ 14,495	$ (2,665)	2003	12/2/2013	(1)
Prestige Senior Living Orchard Hills Salem, Oregon	$ 11,006	$ 545	$ 15,544	$ 10	$ 187	$ —	$ 555	$ 15,731	$ —	$ 16,286	$ (2,945)	2002	12/2/2013	(1)
Prestige Senior Living Southern Hills Salem, Oregon	$ 6,874	$ 653	$ 10,753	$ 43	$ 8	$ —	$ 696	$ 10,761	$ —	$ 11,457	$ (2,069)	2001	12/2/2013	(1)
MorningStar of Sparks Sparks, Nevada	$ 21,282	$ 3,986	$ 47,968	$ 16	$ 86	$ —	$ 4,002	$ 48,054	$ —	$ 52,056	$ (9,363)	2009	12/2/2013	(1)
Prestige Senior Living Five Rivers Tillamook, Oregon	$ 7,047	$ 1,298	$ 14,064	$ 18	$ 251	$ —	$ 1,316	$ 14,315	$ —	$ 15,631	$ (2,866)	2002	12/2/2013	(1)
Prestige Senior Living Riverwood Tualatin, Oregon (“Portland”)	$ 4,163	$ 1,028	$ 7,429	$ 12	$ 87	$ —	$ 1,040	$ 7,516	$ —	$ 8,556	$ (1,489)	1999	12/2/2013	(1)
Prestige Senior Living Auburn Meadows Auburn, Washington ("Seattle")	$ 9,610	$ 2,537	$ 17,261	$ —	$ 186	$ —	$ 2,537	$ 17,447	$ —	$ 19,984	$ (3,306)	2003/2010	2/3/2014	(1)
Prestige Senior Living Bridgewood Vancouver, Washington ("Portland")	$ 12,100	$ 1,603	$ 18,172	$ 10	$ 40	$ —	$ 1,613	$ 18,212	$ —	$ 19,825	$ (3,415)	2001	2/3/2014	(1)

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 2020 (in thousands)

		Initial Costs		Costs Capitalized Subsequent to Acquisition			Gross Amounts at which Carried at Close of Period [2]							
Property/Location	**Encum-brances**	**Land & Land Improve-ments**	**Building and Building Improve-ments**	**Land & Land Improve-ments**	**Building and Building Improve-ments**	**Construc-tion in Process**	**Land & Land Improve-ments**	**Building and Building Improve-ments**	**Construc-tion in Process**	**Total**	**Accumu-lated Depreci-ation**	**Date of Construction**	**Date Acquired**	**Life on which depreciation in latest income statement is computed**
Prestige Senior Living Monticello Park Longview, Washington	$ 16,121	$ 1,981	$ 23,056	$ 1	$ 46	$ —	$ 1,982	$ 23,102	$ —	$ 25,084	$ (4,274)	2001/2010	2/3/2014	(1)
Prestige Senior Living Rosemont Yelm, Washington	$ 8,482	$ 668	$ 14,564	$ —	$ 70	$ —	$ 668	$ 14,634	$ —	$ 15,302	$ (2,674)	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	$ (4,313)	2015	2/7/2014	(1)
Isle at Cedar Ridge Cedar Park, Texas ("Austin")	$ —	$ 1,525	$ 16,277	$ —	$ 199	$ —	$ 1,525	$ 16,476	$ —	$ 18,001	$ (3,161)	2011	2/28/2014	(1)
Prestige Senior Living West Hills Corvallis, Oregon	$ 8,020	$ 842	$ 12,603	$ 11	$ 19	$ —	$ 853	$ 12,622	$ —	$ 13,475	$ (2,404)	2002	3/3/2014	(1)
HarborChase of Plainfield Plainfield, Illinois	$ —	$ 1,596	$ 21,832	$ 9	$ 29	$ —	$ 1,605	$ 21,861	$ —	$ 23,466	$ (3,996)	2010	3/28/2014	(1)
Legacy Ranch Alzheimer's Special Care Center Midland, Texas	$ —	$ 917	$ 9,982	$ —	$ 10	$ —	$ 917	$ 9,992	$ —	$ 10,909	$ (1,863)	2012	3/28/2014	(1)
The Springs Alzheimer's Special Care Center San Angelo, Texas	$ —	$ 595	$ 9,658	$ 9	$ 187	$ —	$ 604	$ 9,845	$ —	$ 10,449	$ (1,808)	2012	3/28/2014	(1)
Isle at Watercrest - Bryan Bryan, Texas	$ —	$ 3,223	$ 40,581	$ 36	$ 987	$ —	$ 3,259	$ 41,568	$ —	$ 44,827	$ (7,803)	2011	4/21/2014	(1)
Isle at Watercrest - Mansfield Mansfield, Texas ("Dallas/Fort Worth")	$ —	$ 997	$ 24,635	$ —	$ 51	$ —	$ 997	$ 24,686	$ —	$ 25,683	$ (4,369)	2011	5/5/2014	(1)
Watercrest at Katy Katy, Texas ("Houston")	$ 21,274	$ 4,000	$ —	$ 123	$ 32,375	$ —	$ 4,123	$ 32,375	$ —	$ 36,498	$ (3,838)	2016	6/27/2014	(1)
Watercrest at Mansfield Mansfield, Texas ("Dallas/Fort Worth")	$ 24,064	$ 2,191	$ 42,740	$ 16	$ 954	$ —	$ 2,207	$ 43,694	$ —	$ 45,901	$ (7,581)	2010	6/30/2014	(1)
HarborChase of Shorewood Shorewood, Wisconsin ("Milwaukee")	$ —	$ 2,200	$ —	$ 301	$ 19,862	$ —	$ 2,501	$ 19,862	$ —	$ 22,363	$ (2,689)	2015	7/8/2014	(1)
Hurst Specialty Hospital Hurst, Texas ("Dallas/Fort Worth")	$ —	$ 2,082	20,186	$ —	$ —	$ —	$ 2,082	$ 20,186	$ —	$ 22,268	$ (4,019)	2004/2012	8/15/2014	(1)
Fairfield Village of Layton Layton, Utah ("Salt Lake City")	$ —	$ 5,217	$ 54,167	$ 66	$ 55	$ —	$ 5,283	$ 54,222	$ —	$ 59,505	$ (9,382)	2010	11/20/2014	(1)
Fieldstone Memory Care Yakima, Washington	$ —	$ 1,297	$ 9,965	$ —	$ 6	$ —	$ 1,297	$ 9,971	$ —	$ 11,268	$ (1,626)	2014	3/31/2015	(1)
Primrose Retirement Center of Anderson Anderson, Indiana ("Muncie")	$ —	$ 1,342	$ 19,083	$ —	$ 33	$ —	$ 1,342	$ 19,116	$ —	$ 20,458	$ (3,013)	2008	5/29/2015	(1)
Primrose Retirement Center of Lancaster Lancaster, Ohio ("Columbus")	$ —	$ 2,840	$ 21,884	$ —	$ —	$ —	$ 2,840	$ 21,884	$ —	$ 24,724	$ (3,797)	2007	5/29/2015	(1)

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 2020 (in thousands)

		Initial Costs		Costs Capitalized Subsequent to Acquisition			Gross Amounts at which Carried at Close of Period [(2)]							
Property/Location	Encum-brances	Land & Land Improve-ments	Building and Building Improve-ments	Land & Land Improve-ments	Building and Building Improve-ments	Construc-tion in Process	Land & Land Improve-ments	Building and Building Improve-ments	Construc-tion in Process	Total	Accumu-lated Depreci-ation	Date of Construction	Date Acquired	Life on which depreciation in latest income statement is computed
Primrose Retirement Center of Wausau Wausau, Wisconsin ("Green Bay")	$ —	$ 1,089	$ 18,653	$ —	$ —	$ —	$ 1,089	$ 18,653	$ —	$ 19,742	$ (2,824)	2008	5/29/2015	(1)
Superior Residences of Panama City Panama City Beach, Florida	$ —	$ 2,099	$ 19,367	$ 14	27	$ —	$ 2,113	$ 19,394	$ —	$ 21,507	$ (3,003)	2015	7/15/2015	(1)
The Hampton at Meadows Place Fort Bend, Texas ("Houston")	$ —	$ 715	$ 24,281	$ —	$ 320	$ —	$ 715	$ 24,601	$ —	$ 25,316	$ (3,475)	2007/2013/2014	7/31/2015	(1)
The Pavilion at Great Hills Austin, Texas	$ —	$ 1,783	$ 29,318	$ 43	$ 240	$ —	$ 1,826	$ 29,558	$ —	$ 31,384	$ (4,222)	2010	7/31/2015	(1)
The Beacon at Gulf Breeze Gulf Breeze, Florida ("Pensacola")	$ —	$ 824	$ 24,106	$ 84	$ 192	$ —	$ 908	$ 24,298	$ —	$ 25,206	$ (3,582)	2008	7/31/2015	(1)
Parc at Piedmont Marietta, Georgia ("Atlanta")	$ —	$ 3,529	$ 43,080	$ 31	$ 483	$ —	$ 3,560	$ 43,563	$ —	$ 47,123	$ (6,404)	2001/2011	7/31/2015	(1)
Parc at Duluth Duluth, Georgia ("Atlanta")	$ —	$ 5,951	$ 42,458	$ 67	$ 2,020	$ —	$ 6,018	$ 44,478	$ —	$ 50,496	$ (6,215)	2003/2012	7/31/2015	(1)
Waterstone on Augusta Greenville, South Carolina	$ —	$ 2,253	$ —	$ 2,116	$ 20,833	$ —	$ 4,369	$ 20,833	$ —	$ 25,202	$ (2,520)	2017	8/31/2015	(1)
Wellmore of Lexington Lexington, South Carolina ("Columbia")	$ —	$ 2,300	$ —	$ 3,168	$ 43,085	$ —	$ 5,468	$ 43,085	$ —	$ 48,553	$ (4,602)	2017	9/14/2015	(1)
Palmilla Senior Living Albuquerque, New Mexico	$ —	$ 4,701	$ 38,321	$ 10	$ 113	$ —	$ 4,711	$ 38,434	$ —	$ 43,145	$ (5,524)	2013	9/30/2015	(1)
Cedar Lake Assisted Living and Memory Care Lake Zurich, Illinois ("Chicago")	$ —	$ 2,412	$ 25,126	$ 16	$ 59	$ —	$ 2,428	$ 25,185	$ —	$ 27,613	$ (3,611)	2014	9/30/2015	(1)
Fieldstone at Pear Orchard Yakima Washington	$ —	$ 1,035	$ —	$ 102	$ 13,499	$ —	$ 1,137	$ 13,499	$ —	$ 14,636	$ (1,440)	2016	10/12/2015	(1)
The Shores of Lake Phalen Maplewood, Minnesota ("St. Paul")	$ —	$ 2,724	$ 25,093	$ 10	$ 94	$ —	$ 2,734	$ 25,187	$ —	$ 27,921	$ (3,532)	2012	11/10/2015	(1)
Dogwood Forrest of Grayson Grayson, Georgia	$ —	$ 1,788	$ —	$ 109	$ 22,068	$ —	$ 1,897	$ 22,068	$ —	$ 23,965	$ (2,040)	2017	11/24/2015	(1)
Park Place Senior Living at WingHaven O'Fallon, Missouri ("St. Louis")	$ —	$ 1,283	$ 48,221	$ 134	$ 847	$ —	$ 1,417	$ 49,068	$ —	$ 50,485	$ (6,533)	2006/2014	12/17/2015	(1)
Hearthside Senior Living of Collierville Collierville, Tennessee ("Memphis")	$ —	$ 1,756	$ 13,379	$ 16	$ 28	$ —	$ 1,772	$ 13,407	$ —	$ 15,179	$ (1,874)	2014	12/29/2015	(1)
Albuquerque, New Mexico – Unimproved Land Albuquerque, New Mexico	$ —	$ 1,056	$ —	$ —	$ —	$ —	$ 1,056	$ —	$ —	$ 1,056	$ —	—	9/7/2017	(1)
	$ 337,519	$ 122,073	$ 1,281,187	$ 11,583	$ 225,691	$ —	$ 133,656	$ 1,506,878	$ —	$ 1,640,534	$ (262,394)			

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 2020 (in thousands)

Transactions in real estate and accumulated depreciation as of December 31, 2020 are as follows:

Balance December 31, 2017	$ 2,721,805	Balance December 31, 2017	$ (219,457)
2018 Improvements	9,052	2018 Depreciation	(60,821)
2018 Dispositions	(5,359)	2018 Accumulated depreciation on dispositions	633
2018 Impairments	(11,818)	Balance December 31, 2018	(279,645)
Balance December 31, 2018	2,713,680	2019 Depreciation	(41,737)
2019 Improvements	4,039	2019 Accumulated depreciation on dispositions	94,853
2019 Impairments	(1,004,892)	Balance December 31, 2019	(226,529)
Balance December 31, 2019	1,712,827	2020 Depreciation	(42,430)
2020 Improvements	3,020	2020 Accumulated depreciation on dispositions	6,565
2020 Dispositions	(75,313)	Balance December 31, 2020	$ (262,394)
Balance December 31, 2020	$ 1,640,534		

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 $1.8 billion.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES
SCHEDULE IV – MORTGAGE LOANS ON REAL ESTATE
YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018 (in thousands)

The following is a reconciliation of mortgages and other notes receivable on real estate for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	2020	2019	2018
Balance at beginning of year	$ 482	$ 1,688	$ 1,179
Additions during period:			
New mortgage loans and additional advances	—	531	432
Accrued and deferred interest	6	9	77
Deductions during period:			
Collection of principal	(40)	(1,746)	—
Balance at end of year	$ 448	$ 482	$ 1,688

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, 2020.

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, 2020 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 4, 2021 were as follows:

Name	Age	Position
James M. Seneff, Jr.	74	Director and Chairman of the Board
Stephen H. Mauldin	52	Director, Vice Chairman of the Board, President and Chief Executive Officer
James Chandler Martin	70	Independent Director and Audit Committee Financial Expert
Michael P. Haggerty	68	Independent Director
J. Douglas Holladay	74	Independent Director
Ixchell C. Duarte	54	Chief Financial Officer, Senior Vice President and Treasurer (Principal Financial Officer)
John F. Starr	46	Chief Operating Officer and Senior Vice President
Tracey B. Bracco	41	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 Asheboro, 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 eleven 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 nine (9) meetings in 2020. 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.

Independent Directors	Position
J. Chandler Martin	C, E
Michael P. Haggerty	M
J. Douglas Holladay	M
Number of 2020 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, 2020, 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, 2020. 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 2020 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 2020.

Name	Fees Earned or Paid in Cash	Total Compensation
James M. Seneff, Jr. (Chairman)	$ —	$ —
Stephen H. Mauldin	—	—
J. Chandler Martin	130,000	130,000
Michael P. Haggerty	110,000	110,000
J. Douglas Holladay	110,000	110,000

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, 14th Floor, 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 4, 2021.

Name	Number of Shares	Percent of Shares
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)	1,377,359	0.8%

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 4, 2021.

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, 2020 or March 4, 2021.

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 Item 8. "Financial Statements and Supplementary Data–Note 10. Related Party Arrangements."

During 2020, 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 2020, the Company's Total Operating Expenses incurred represented approximately 49.3% 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, 2020 and 2019.

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, 2020 and 2019, 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,	
	2020	2019
Audit fees	$ 858,780	$ 793,636
Audit-related fees	—	—
Tax fees	539,724	453,945
All other fees	—	—
Total Fees	$ 1,398,504	$ 1,247,581

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, 2020 and 2019.

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, 2020 and 2019.

PART IV

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, 2020 and 2019

Consolidated Statements of Operations for the years ended December 31, 2020, 2019 and 2018

Consolidated Statement of Comprehensive Income (Loss) for the years ended December 31, 2020, 2019, 2018

Consolidated Statements of Stockholders' Equity and Redeemable Noncontrolling Interest for the years ended December 31, 2020, 2019 and 2018

Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019 and 2018

Notes to Consolidated Financial Statements

(2) Index to Financial Statement Schedules:

Schedule II – Valuation and Qualifying Accounts for the years ended December 31, 2020, 2019 and 2018

Schedule III – Real Estate and Accumulated Depreciation as of December 31, 2020

Schedule IV – Mortgage Loans on Real Estate for the years ended December 31, 2020, 2019 and 2018

(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.)*

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 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 certain executive offices and senior management 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 a s Exhibit 106.3 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, 2020, 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 15th day of March 2021.

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.

Signature	Title	Date
/s/ James M. Seneff, Jr. JAMES M. SENEFF, JR.	Chairman of the Board	March 15, 2021
/s/ Michael P. Haggerty MICHAEL P. HAGGERTY	Independent Director	March 15, 2021
/s/ J. Douglas Holladay J. DOUGLAS HOLLADAY	Independent Director	March 15, 2021
/s/ J. Chandler Martin J. CHANDLER MARTIN	Independent Director	March 15, 2021
/s/ Stephen H. Mauldin STEPHEN H. MAULDIN	Vice Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)	March 15, 2021
/s/ Ixchell C. Duarte IXCHELL C. DUARTE	Chief Financial Officer, Senior Vice President and Treasurer (Principal Financial and Accounting Officer)	March 15, 2021

REPORT OF INDEPENDENT DIRECTORS

As Independent Directors of CNL Healthcare Properties, Inc. (the "**Company**"), in 2020, we continued our work with management and KeyBanc Capital Markets ("**KeyBanc**"), the Company's independent financial advisor engaged by the Special Committee, to assist us in the analysis of strategic alternatives in an effort to maximize value to stockholders. In connection with the various strategic opportunities available to the Company, the Board of Directors (the "**Board**") 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. The Company shifted its focus away from the pursuit of larger strategic alternatives to provide further liquidity to its shareholders due to the market and industry disruptions from the COVID-19 pandemic during the year ended December 31, 2020. However, the Special Committee continues to work with our financial advisor to carefully study market data and potential options to determine suitable liquidity alternatives that are in the best interests of all of our shareholders.

The Company sold 61 properties during 2019 and between January 2020 and January 2021, the Company sold the remaining eight properties for which the Special Committee had committed to sell as part of executing under possible strategic opportunities. As of March 4, 2020, our investment portfolio consisted of interests in 73 properties, comprising of 71 senior housing communities, one acute care hospital and one vacant land parcel. COVID-19 presented considerable risks for Company's seniors housing portfolio due to average age and healthcare profile of its residents, among other things. The operators of such communities followed the guidelines issued from the Center for Disease Control (the "**CDC**") and some operators even suspended scheduled move-ins and those who continued accepting move-ins took specific precautions. Throughout 2020, the Company's seniors housing portfolio continued to be affected by operating and expense challenges resulting from COVID-19. We anticipate that the COVID-19 related struggles are not likely to let up until mid-2021 when vaccines have been widely distributed.

During the last half of 2019 and through December 31, 2020, we sold nine additional properties (two properties from our MOB/Healthcare Portfolio and seven skilled nursing facilities) to unrelated third parties. We retained the net sales proceeds for corporate purposes. In September 2020, we decided to discontinue marketing for sale of one property, which we had previously classified as assets held for sale, due to financial difficulties experienced by the tenant of this property. As of December 31, 2020, we had one acute care property classified as held for sale and had entered into a purchase and sale agreement with the existing tenant of this acute care property. In January 2021, we closed on the sale of this acute care property and retained these proceeds for corporate purposes.

Investment Policies. Since inception and through the completion of the Company's acquisition phase, 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 Company set forth guidelines regarding portfolio diversification in its prospectus. In addition, the Company's policies provided guidance in selecting tenants and operators that it considered to be highly experienced successful operators of properties similar to the Company's. 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. Additionally, 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 Company 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 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. In 2020 and thus far through COVID-19, the Company continued to distribute regular quarterly distributions due to a strong Company balance sheet. The Board believes that the Company's distribution policies are in the best interests of the Company's stockholders because they are in keeping with investors' desire for current income while protecting the Company's liquidity needs. However, the Company will continue to monitor the extent of the impact of the disruptions from the COVID-19 pandemic on its cash flows from operations in assisting the Board in determining the level of distributions going forward, if any.

Related Party Transactions. We have reviewed the annual report and transactions with affiliates as outlined in Note 10 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 2020, 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 Investment Program Association ("**IPA**") Practice Guideline 2013-01, Valuations of Publicly Registered Non-Listed REITs (the "**IPA Guidelines**"). 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. In March 2021, the Board unanimously approved $7.38 as the estimated NAV per share of the Company's common stock as of December 31, 2020 (the "**2020 NAV**").

In summary, we believe that the Company's portfolio of investments remains 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.

<u>Annual Report Disclosures Required by Charter</u>

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, 2020, 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 49.3%.

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, 2020.

CNL Healthcare Properties

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:
CNL Client Services
P. O. Box 219001
Kansas City, Missouri 64121-9001
866-650-0650

Corporate Offices

CNL Healthcare Properties, Inc.
450 South Orange Avenue
Orlando, Florida 32801-3336
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

Clockwise from top:
Dogwood Forest of Grayson, *Grayson, Georgia*
Fairfield Village of Layton, *Layton, Utah*
The Beacon at Gulf Breeze, *Gulf Breeze, Florida*
HarborChase of Shorewood, *Shorewood, Wisconsin*

CNL *Healthcare Properties*