



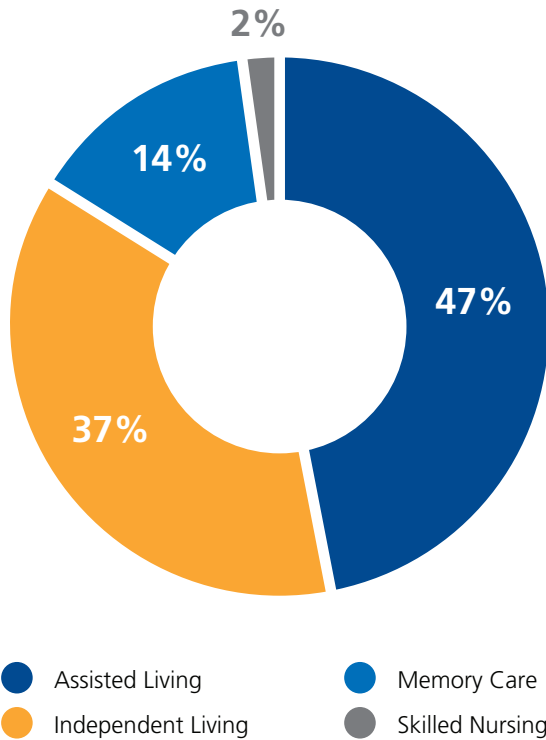
# CNL Healthcare Properties

2021 ANNUAL REPORT



*Built on Experience*

## Seniors Housing Portfolio Composition by Units

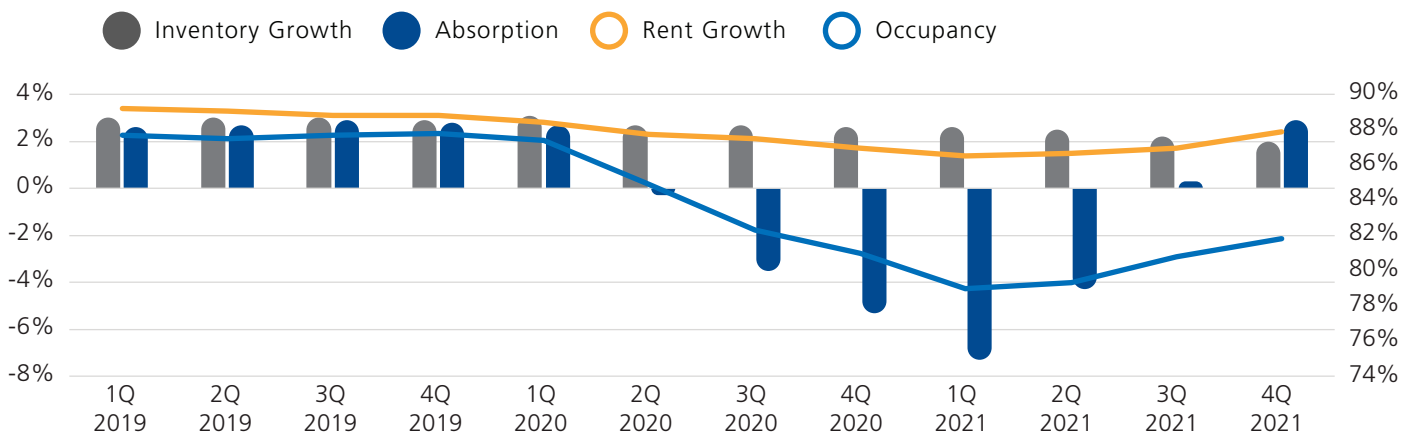


Data as of Dec. 31, 2021

## Top 10 State Diversification (by pro-rata ownership of investment basis)

Texas	20.4%
Ohio	10.0%
South Carolina	8.7%
Georgia	6.5%
Washington	5.8%
Montana	5.2%
Idaho	4.7%
Oregon	4.2%
Florida	3.9%
Iowa	3.3%

## Seniors Housing Supply, Occupancy and Rent Growth Trends



2021 National Investment Center for Seniors Housing & Care, Inc. (NIC). NIC Map® Data Service. Data believed to be accurate but not guaranteed; subject to future revision.

## To Our Shareholders

Our focus in 2021 was again largely directed towards portfolio operations in the second year of the pandemic environment and away from exploring and executing on strategic opportunities to provide liquidity to shareholders. Yet, while continuing to operate in a what was a very dynamic and variable backdrop, early in the year we were able to additionally streamline the company's portfolio and positioning by successfully disposing of a non-seniors housing asset plus, in January of this year, we opportunistically acquired the minority interest of our joint venture partner in five seniors housing communities in Iowa. CNL Healthcare Properties now fully owns those properties, which simplified our holdings even more. Most recently, we sold our last remaining acute care asset in April. The company's portfolio is now exclusively focused on seniors housing investment and operations, which we believe positions us well as we look ahead.

By mid-2021, our seniors housing communities began to show recovering occupancy momentum. This was consistent with the theme across the seniors housing industry. As the country began to show signs of emerging from the COVID-19 pandemic, positive occupancy and absorption improvement trends began to form and sustain mid-year. However, with the onset of the Delta and Omicron waves in mid- and late year, respectively, the company and industry encountered a slowing occupancy recovery. In addition, we and the industry faced an acute onset of significantly higher personnel costs due to increased wages in a tightened labor market, plus an historically high reliance on temporary agency staffing. The labor and staffing environment drove meaningfully expanded operating costs and coupled with overall lower revenues, negatively impacted the recovery of financial operations at our communities for the year. Rising inflation levels also led to higher food costs and virtually all other operational expenses, which impacted property cash flows further. To combat the cost pressures, we have been

successful in obtaining above-average increases to asking resident rents at our properties. The enhanced rent growth began in large part with 2022 renewals and will ultimately increase revenues and play an important role in operational and margin improvements.

With the emergence of the highly contagious variants in 2021, we and our operators redoubled our virus prevention and containment efforts throughout our communities. Despite best efforts, including driving exceptionally high vaccination rates among residents and staff, our properties experienced high-amplitude waves of confirmed cases in the middle and at the end of the year. While we have reason to be encouraged at this time based on very low levels of active COVID-19 cases, we must accept that ongoing impacts of the pandemic, especially among our particularly vulnerable resident population, will likely continue to fluctuate. Until the virus has been deemed endemic, our vigorous prevention, management and containment efforts will remain a priority.

Over the full year of 2021, we were pleased to maintain our pre-pandemic shareholder distribution rate, which reflected the company's strong financial condition, liquidity level and financial flexibility, despite the operational impacts described above on our business.

## Summary of Financial and Operational Performance

At year end, CNL Healthcare Properties' portfolio of 73 real estate assets – 71 seniors housing communities, one acute care hospital which was sold in April 2022, and one land parcel – represents an investment value of approximately \$1.8 billion as of this report's date. For the year ended Dec. 31, 2021, we earned an expanded \$30.1 million in rental income and related revenues from our net leased assets, compared to \$26.3 million for this same group of assets the previous year. Conversely, we reported \$265.3 million in



Parc at Duluth  
Duluth, Georgia

*“We were pleased to maintain our pre-pandemic shareholder distribution rate, which reflected the company’s strong financial condition, liquidity level and financial flexibility, despite the operational impacts on our business.”*



Morningstar of Sparks  
Sparks, Nevada



resident and service fees from our managed seniors housing properties, compared to \$280.9 million for the year ended Dec. 31, 2020. Our net leased assets, representing approximately 22% of our portfolio, have an average remaining lease term of 5.7 years based on annualized current base rents. As of Dec. 31, 2021, the company maintained \$67.3 million of liquidity, consisting of cash on hand and availability under our revolving credit facility. From a financial management perspective, we remain focused on liquidity, balance sheet strength and flexibility, and believe we are well-positioned to manage our near-term debt maturities and expected uses of cash in 2022.

As one of the nation's largest owners of private-pay seniors housing, we again went to great lengths to proactively manage our balance sheet throughout the year. In September 2021, we successfully closed a new term loan that provided an additional \$150 million in senior unsecured loan proceeds and complemented our existing corporate credit facilities. In October 2021, we also refinanced approximately \$238.0 million in debt obligations, using proceeds from our term loan and revolving credit facilities, plus cash on hand. At year-end, our total debt-to-asset ratio was a very conservative 31.8% based on in-place investment value, and our unhedged floating interest rate exposure remained quite low at 8.4% of investment amount.

Funds from Operations (FFO) per share was \$0.22 in 2021, compared with \$0.31 for 2020. We reported Modified Funds from Operations (MFFO) per share in 2021 of \$0.23, compared with \$0.34 in 2020. 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 annual estimated per share net asset valuation (NAV) exercise based on our portfolio and balance sheet as of Dec. 31, 2021. To conduct this valuation, we again engaged Robert A. Stanger & Co. Inc., a leading independent advisory firm, to provide analyses and appraisals and to assist our board of directors and its valuation committee in determining an updated estimated NAV. Other than an adjustment for estimated property-level transaction costs described below, the process for determining the NAV closely followed the company's internal valuation policy and certain methodologies prescribed by the Institute for Portfolio Alternatives (IPA), our leading industry association.

In March 2022, our board of directors announced an estimated NAV per share of \$7.37 as of Dec. 31, 2021, for our common stock. Reflecting our belief in the high quality of our focused portfolio and the mid- and long-term prospects of the seniors housing industry, our recently updated NAV per share was very steady as compared to the prior NAV per share of \$7.38 as of Dec. 31, 2020. Our most recent NAV reflects an ongoing deduction for our current projection of property-level transaction costs presuming a hypothetical orderly liquidation of the balance of our assets to depict a version of an estimated "net" calculation for shareholders. The company began deducting hypothetical transaction costs from the estimated NAV in 2018 when we first publicly announced the exploration of strategic alternatives to provide liquidity to shareholders.

The economic effects of the COVID-19 pandemic have been palpable and widespread, negatively impacting many industries, and especially the seniors housing segment. As mentioned earlier, the company's portfolio began



Waterstone on Augusta  
Greenville, South Carolina

*“The company’s overall real estate portfolio experienced a 0.57% increase in aggregate appraised value compared to the prior year’s estimated NAV, which is especially noteworthy and positive.”*



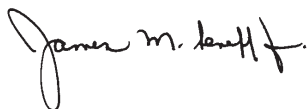
Isle at Watercrest Mansfield  
Mansfield, Texas



experiencing a return to positive trends in occupancy during 2021, but incremental and sustained progress was interrupted by the Delta and Omicron variant waves. Continuing rent increases expected in 2022 and beyond and the rebuilding of operating margins in the near-to-midterm are expected to lift property cash flows resulting in what we expect to be forward-looking improved property performance. Notwithstanding the series of challenges throughout the year, the company's overall real estate portfolio experienced a 0.57% increase in aggregate appraised value compared to the prior year's estimated NAV, which is especially noteworthy and positive.

While our valuation process is quite detailed and thorough, please keep in mind that the estimated NAV per share is as of a specific measurement date and is not necessarily intended to indicate the value that shareholders should expect to realize upon the conclusion of any liquidity process.

Throughout 2021, and 2020 for that matter, we maintained our quarterly distribution of \$0.0512 per share (\$0.2048 annually), reflecting our contextually strong financial condition during the first two years of the pandemic. For the year ended Dec. 31, 2021, we declared and paid cash distributions of \$35.6 million. In March of 2022, our board of directors approved a first-quarter 2022 cash distribution of \$0.0256 per share, representing a 50% reduction from the prior quarter. The reduced distribution level is the result of various factors, including the continued COVID-19 impact on industry and portfolio performance; persistent inflation



**James M. Seneff, Jr.**  
Chairman of the Board

concerns; volatility in capital and credit markets; and overarching geopolitical concerns stemming from the troubling Eastern European conflict. That said, the company and its board will continue to closely study actual operating results along with expected cash flow generation prospects as forward-looking distribution levels are considered.

### **Looking Ahead**

The seniors housing industry continues to be poised for incremental growth and prosperity over the next several decades, driven not only by increasing demand from the late Baby Boomer generation, according to the National Investment Center for Seniors Housing & Care (NIC), but also by constrained and historically low levels of seniors housing new construction and supply. Moreover, we continue to believe the company is financially well-positioned – given our low debt level and solid financial condition – to drive the enterprise forward positively in what remains a very dynamic environment.

Lastly, our board and its special committee continue to remain focused in diligently studying and pursuing select market opportunities and potential liquidity outcomes that are judged to be in our shareholders' best interest. We are undeterred in these efforts despite a highly variable and shifting economic environment.

As always, thank you for the opportunity to be stewards of your investment in CNL Healthcare Properties.



**Stephen H. Mauldin**  
CEO and President

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

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**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, 2021  
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

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**CNL Healthcare Properties, Inc.**

(Exact name of registrant as specified in its charter)

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**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

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

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

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

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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 an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

Indicate by check mark whether the registrant 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 \$7.38 net asset value (“NAV”) per share as of June 30, 2021 (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 \$1.3 billion.

**The number of shares of common stock of the registrant outstanding as of March 21, 2022 was 173,960,540.**

#### DOCUMENTS INCORPORATED BY REFERENCE

None

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## PART I

### STATEMENT REGARDING FORWARD LOOKING INFORMATION

Statements contained under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Annual Report on Form 10-K for the fiscal year ended December 31, 2021 (“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](http://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 U.S. 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”), 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 2021, we extended the advisory agreement with our Advisor through June 2022 and effective with the renewal, reduced the asset management fee from 1.0% per annum to 0.8% per annum of average invested assets. 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 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,” we sold 69 properties between April 2019 and January 2021, discontinued marketing efforts on the remaining specialty hospital (the “Hurst Specialty Hospital”) in September 2020 and in March 2022, entered into a purchase and sale agreement for the sale of the Hurst Specialty Hospital. We view, manage and evaluate our portfolio homogeneously as one collection of healthcare assets with a common goal of maximizing revenues and property income regardless of the asset class or asset type.

As of December 31, 2021, our investment portfolio consisted of interests in 73 properties, comprising of 71 senior housing communities, the Hurst Specialty Hospital, and one vacant land parcel. 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). The Hurst Specialty Hospital 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 Hurst Specialty Hospital. 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. Since the onset of the pandemic we have operated and continue to operate our communities through the disruptions and uncertainties of the pandemic, including disruptions from new variants of the virus during 2021. Average occupancy began to decline at the onset of the pandemic starting in the second half of March 2020 and trended lower through February 2021. We began to experience small occupancy gains each month starting in March 2021 as vaccines became available and regulatory move-in restrictions were lifted or relaxed. As monthly marginal occupancy gains continued, the rate of occupancy recovery during the latter part of 2021 was impacted by the arrival of the Delta and Omicron strands of the coronavirus during this time period. The spike in positive COVID-19 cases during the last half of 2021 and in January 2022 resulted in regulatory move-in restrictions at some of our communities and coupled with the seasonally cold temperatures, impacted the rate of move-ins and occupancy increases during this period. Starting in February 2022, we experienced a decline in positive COVID-19 cases in our communities and benefitted from relaxed COVID-19 restrictions by local authorities which contributed to an increase in tours and move-ins at our communities. We anticipate continued marginal occupancy improvements each month during the year ending December 31, 2022.

Despite the marginal increases in occupancy during 2021, we experienced higher than anticipated compression in property level NOI margins in the last half of 2021 due to increases in operating expenses. Labor costs increased at higher rates and particularly during Q3 and Q4 as increased wages in a tight labor market were coupled with increases in usage of agency temporary personnel to fill vacancies from staff required to quarantine due to testing positive during the Delta and Omicron spikes in the last half of 2021. The impact of rising inflation began to surface in the form of higher food costs and other operating expenses, which also contributed to margin compressions. We have begun implementing rate increases at our properties effective with renewals in 2022 which will result in an increase in revenues. COVID-19 positive cases amongst staff have begun to decline since the beginning of the year which we anticipate will reduce our use of agency labor during 2022. We anticipate that the rental rate increases will partially offset the increase in operating costs and will result in improved operating margins. 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 COVID-19 pandemic has had and may continue to have a material and adverse impact on our financial condition, results of operations and cash flows. The extent of the continued impact of COVID-19 on our financial condition, results of operations and cash flows 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 severity and duration of the outbreak caused by new variants of the virus, (ii) the effectiveness and acceptance of vaccines, (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.

## **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.

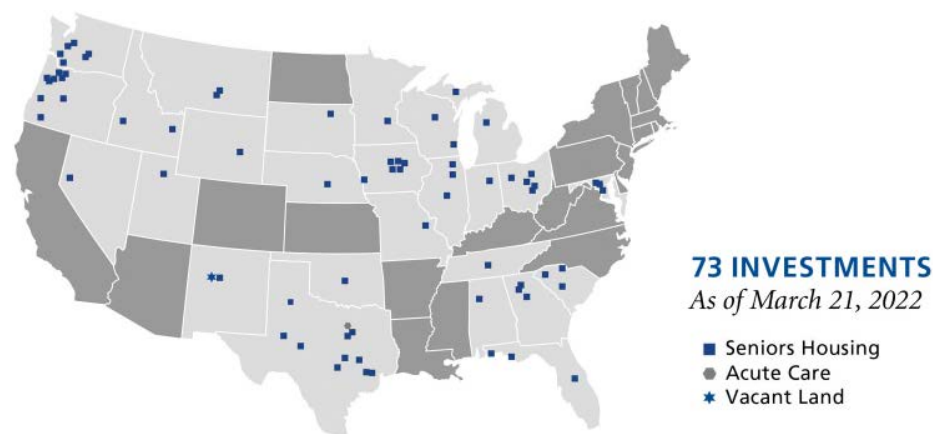
In connection with our consideration of the Possible Strategic Alternatives, our board of directors suspended both our Reinvestment Plan and our Redemption Plan effective July 11, 2018. In addition, as part of executing on Possible Strategic Alternatives, our board of directors committed to a plan to sell 70 properties which included a portfolio of 63 properties (consisting of medical office buildings ("MOBs"), post-acute care facilities and acute care hospitals across the US), collectively (the "MOB/Healthcare Portfolio") plus seven skilled nursing facilities. Through December 31, 2021, we sold 69 properties, received net sales proceeds of approximately \$1,449.7 million and used the net sales proceeds to: (1) repay indebtedness secured by the properties; (2) strategically rebalance other corporate borrowings; (3) make a special cash distribution in May 2019 of approximately \$347.9 million (\$2.00 per share) to our stockholders and (4) retained net sales proceeds for other corporate purposes, because we were focused on maintaining balance sheet strength and liquidity during COVID-19 to enhance financial flexibility. In addition to declaring the special distribution in May 2019, effective with the second quarter of 2019, our board of directors adjusted our regular quarterly cash distribution to an amount equal to \$0.0512 per share, compared to \$0.1164 per share that had been in effect since the third quarter of 2017. The adjustment to our regular cash distributions was the result of a reduction in our remaining earnings base and operating cash flows given the associated impact of the sale of real estate on our operating cash flows. In September 2020, we decided to discontinue marketing for sale our Hurst Specialty Hospital, our remaining property that our board had committed to sell, due to financial difficulties experienced by the tenant of this property. In March 2022, we received an unsolicited offer and entered into a purchase and sale agreement for the Hurst Specialty Hospital with an unrelated third party for a gross sales price of \$8.5 million and expect to close on the sale of the Hurst Specialty Hospital by the second quarter of 2022.

During the year ended December 31, 2020, we shifted our focus away from the pursuit of larger strategic alternatives to provide further liquidity to our stockholders due to the market and industry disruptions in the seniors housing sector from COVID-19. However, our Special Committee continued working and 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 stockholders.

## **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 21, 2022:



The following table summarizes our remaining healthcare portfolio by asset class and investment structure as of March 21, 2022:

Type of Investment	Number of Investments	Amount of Investments (in millions)	Percentage of Total Investments
<i>Consolidated investments:</i>			
Seniors housing leased <sup>(1)</sup>	15	\$ 311.0	17.3%
Seniors housing managed <sup>(2)(3)</sup>	56	1,458.9	81.0%
Seniors housing unimproved land	1	1.1	0.1%
Acute care leased <sup>(1)(4)</sup>	1	29.5	1.6%
	<u>73</u>	<u>\$ 1,800.5</u>	<u>100.0%</u>

**FOOTNOTES:**

- (1) Properties that are leased to third-party tenants for which we report rental income and related revenues.
- (2) Properties that are leased to TRS entities and managed pursuant to third-party management contracts (i.e. RIDEA structure) where we report resident fees and services, and the corresponding property operating expenses.
- (3) Includes five properties owned by Windsor Manor Joint Venture, which became wholly owned effective January 1, 2022. The joint venture was accounted for using the equity method through December 31, 2021.
- (4) In March 2022, we entered into a purchase and sale agreement relating to this property.

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, and cash flows provided by operating activities for each quarter in the years ended December 31, 2021, 2020 and 2019.

## **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. Throughout the COVID-19 pandemic, seniors housing operators have experienced broad-based occupancy declines and as a result, we expect competition to continue in 2022 and beyond as operators attempt to fill unoccupied units.

## **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. We do not directly compensate our executive officers for services rendered to us.

## **Government Regulations**

Our business is subject to laws and governmental regulations. Changes in these laws and regulations, or their interpretation by agencies and courts, occur frequently.

### *Americans with Disabilities Act*

Under the Americans with Disabilities Act of 1990, or ADA, all public accommodations and commercial facilities are required to meet certain federal requirements related to access and use by disabled persons. These requirements became effective in 1992. Complying with the ADA requirements could require us to remove access barriers. Failing to comply could result in the imposition of fines by the federal government or an award of damages to private litigants. Although we own properties that substantially comply with these requirements, we may incur additional costs to comply with the ADA. In addition, a number of additional federal, state, and local laws may require us to modify any properties we own, or may restrict further renovations thereof, with respect to access by disabled persons. Additional legislation could impose financial obligations or restrictions with respect to access by disabled persons. Although we believe that these costs will not have a material adverse effect on us, if required changes involve a greater amount of expenditures than we currently anticipate, our ability to make expected distributions could be adversely affected.

### *Healthcare Regulatory Matters*

Ownership and operation of certain senior housing properties are subject, directly and indirectly, to substantial federal, state and local government healthcare laws and regulations. The failure by our tenants or operators to comply with these laws and regulations could adversely affect the successful operation of our properties. For example, most senior housing facilities are subject to state licensing and registration laws. In granting and renewing these licenses, the state regulatory agencies consider numerous factors relating to a property's physical plant and operations, including, but not limited to, admission and discharge standards, staffing, and training. A decision to grant or renew a license is also affected by a property owner's record with respect to patient and consumer rights, medication guidelines, and rules. In addition, the Health Insurance Portability and Accountability Act of 1996, or HIPAA, requires the use of uniform electronic data transmission standards for certain healthcare claims and payment transactions submitted or received electronically. Compliance with these regulations is mandatory for healthcare providers, such as, in some cases, our tenants and operators. The cost of compliance with these regulations may have a material adverse effect on the business, financial condition or results of operations of our tenants or operators and, therefore, may adversely affect us. We intend for all of our business activities and operations, as well as the business activities and operations of our tenants and operators, to conform in all material respects with all applicable laws and regulations, including healthcare laws, regulations and licensing requirements.

## **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 U.S. federal income taxation of the Company and the material U.S. 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.

**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 U.S. 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 U.S. 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 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) is reduced 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. Such deduction results in a maximum effective rate of regular U.S. federal income tax on ordinary REIT dividends of 29.6% through 2025 (as compared to the 20% maximum U.S. federal income tax rate applicable to qualified dividend income received from a non-REIT corporation).

Any net operating losses (“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.

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).

Commencing in taxable years beginning after December 31, 2017, section 163(j) of the Code limits the deductibility of net interest expense paid or accrued on debt properly allocable to a trade or business to 30% of “adjusted taxable income,” subject to certain exceptions. Any deduction in excess of the limitation is carried forward and may be used in a subsequent year, subject to the 30% limitation in such subsequent year. “Adjusted taxable income” is determined without regard to certain deductions, including those for net interest expense, NOL carryforwards and, for taxable years beginning before January 1, 2022, depreciation, amortization and depletion. Provided the taxpayer makes a timely election (which is irrevocable), the 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 U.S. 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 U.S. 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 state and local 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 U.S. federal income tax laws; (v) use a calendar year for U.S. 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 for U.S. federal income tax purposes 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 for such purposes. 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 U.S. federal income 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 any partnership and of any other partnership, joint venture, limited liability company or other entity treated as a partnership for U.S. federal income tax purposes in which we or the operating partnership have an interest, will be treated as our assets, liabilities and items of income.

The operating partnership since its formation has been treated as an entity disregarded as separate from us for U.S. federal income tax purposes. Thus, all of the operating partnership's assets, liabilities and activities are treated as our assets, liabilities and activities for U.S. federal income tax purposes. It is not anticipated that 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 an entity disregarded as separate from us for U.S. federal income tax purposes.

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, from time to time, enter into hedging transactions with respect to interest rate exposure. 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, or (ii) 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 local 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.

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.

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.

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 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. Such asset tests do not apply to securities of a TRS. 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 U.S. federal income 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.

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 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 U.S. 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 U.S. 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 U.S. 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, income generally must be accrued for U.S. federal income tax purposes no later than the taxable year in which such income is taken into account as revenue in our financial statements, which could create a mismatch between our taxable income and the actual receipt of cash attributable to such income. It is also possible we may be allocated a share of net capital gain attributable to the sale of depreciated property by any 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 U.S. 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 U.S. 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 U.S. 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 U.S. 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 U.S. federal income tax purposes is:

- a citizen or resident of the U.S.;
- a corporation or other entity treated as a corporation 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 for U.S. federal income tax purposes 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 U.S. 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, 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.

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 U.S. 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 U.S. 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 U.S. 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 U.S. 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 U.S. 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 and other foreign stockholders, which we refer to collectively as “Non-U.S. stockholders,” are complex. The following discussion is intended only as a summary of these rules. Non-U.S. stockholders 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. stockholders 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. stockholder will be subject to U.S. withholding tax at the rate of 30%, unless reduced or eliminated by treaty.

In general, Non-U.S. stockholders 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. stockholder’s investment in our common stock is, or is treated as, effectively connected with the Non-U.S. stockholder’s conduct of a U.S. trade or business, the Non-U.S. stockholder generally will be subject to U.S. federal income 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. federal income tax return filed by or on behalf of the Non-U.S. stockholder, and the income may also be subject to the 30% branch profits tax in the case of a Non-U.S. stockholder 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. stockholder 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. stockholder 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. stockholder 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. stockholder under FIRPTA. Distributions subject to FIRPTA may also be subject to a 30% branch profits tax in the hands of a Non-U.S. stockholder 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. stockholder from a REIT that are not USRPI capital gains are generally not subject to U.S. federal income tax, but may be subject to U.S. federal 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 U.S. federal income tax under FIRPTA. Non-U.S. stockholders 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. stockholder generally will not be subject to U.S. federal income tax 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. stockholders. 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. stockholder’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. stockholder may be treated as having gain from the sale or exchange of a USRPI if the Non-U.S. stockholder (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. stockholder 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. stockholder in two cases: (i) if the Non-U.S. stockholder's investment in our common stock is effectively connected with a U.S. trade or business conducted by such Non-U.S. stockholder, the Non-U.S. stockholder will be subject to the same treatment as a U.S. stockholder with respect to such gain; or (ii) if the Non-U.S. stockholder 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% U.S. federal tax on the individual's capital gain.

**Information Reporting Requirements and Backup Withholding for Non-U.S. Holders.** Non-U.S. stockholders 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 U.S. federal income tax return. We also must maintain, within the Internal Revenue District in which we are required to file our U.S. 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.

### **Other Tax Considerations**

**Payments to Certain Foreign Financial Entities and Other Foreign Entities.** U.S. federal 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% U.S. federal withholding tax. Stockholders that are otherwise eligible for an exemption from, or reduction of, U.S. federal 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. federal withholding taxes and the application of the Treasury Regulations in light of your particular circumstances.

**Partnership Audit Rules.** Generally effective for partnership tax years beginning after December 31, 2017, for U.S. federal income tax purposes, 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) generally is determined, and taxes, interest, or penalties attributable thereto are assessed and collected, at the partnership level. It is possible that this rule 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.

**Legislative or Other Actions Affecting REITs.** Current and prospective holders of our stock should recognize the present U.S. 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 U.S. 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 U.S. federal tax laws and interpretations thereof could adversely affect an investment in our stock.

***U.S. State and Local Taxes.*** We and our subsidiaries and stockholders may be subject to U.S. state and local taxation in various jurisdictions including those in which we or they transact business, own property or reside. We own properties located in numerous jurisdictions within the U.S., and may be required to file tax returns in some or all of those jurisdictions. Our U.S. state and local tax treatment and that of our stockholders may not conform to the U.S. federal income tax treatment discussed above.

**Available Information**

CNL Financial Group, LLC (“Sponsor” or “CNL”) maintains a web site at [www.cnlhealthcareproperties.com](http://www.cnlhealthcareproperties.com) containing additional information about our business, and a link to the SEC web site ([www.sec.gov](http://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](http://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 has had an adverse effect on, and likely will continue to adversely affect, the Company's business, results of operations and financial condition.**

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 magnitude of impact of COVID-19 on the Company's business, results from operations, financial condition, liquidity and cash flows will depend on many factors, many of which cannot be foreseen, including: the ultimate duration of the pandemic; the severity of COVID-19 on seniors generally and those living in seniors housing communities specifically; the continued emergence of additional variants, including Delta and Omicron; vaccine-mandates and their impacts on staffing shortages; continued issues with the supply chain and availability and cost of goods; and consumer sentiment regarding the safety of seniors housing communities during and after the pandemic which may impact demand for seniors housing communities.

The Company is currently invested in a geographically diversified portfolio of seniors housing properties. As of December 31, 2021, the Company's investment portfolio consisted of interests in 73 properties, comprising of 71 senior housing communities, the Hurst Specialty Hospital and one vacant land parcel. 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 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, 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, and increased costs and availability of goods as a result of inflation and supply chain interruptions. Such operational costs may increase in the future based on the duration and severity of the pandemic, the introduction of additional public health regulations and continued inflation and supply chain factors. 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, or if, as a result of vaccine mandates, current employees quit or there are challenges hiring new employees. 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 the impacts of inflation and logistical challenges such as supply chain interruptions and staffing shortages.
- *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 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. 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. In January 2021, the Company sold its last remaining acute care property classified as assets held for sale. As of December 31, 2021, the Company's investment portfolio consisted of interests in 73 properties, comprising of 71 senior housing communities, the Hurst Specialty Hospital and one vacant land parcel.

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. Additionally, rising interest rates in a high inflation environment may adversely impact the valuation of the Company's assets as debt capital available to potential buyers becomes more expensive. As a result, the Company may have to own and operate its remaining properties if and until market conditions improve. Even if the Company consummates 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 is unable to consummate 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, 2021. 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, 2021. 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. A significant majority 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, inflation, 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.

***Inflation could adversely impact the operating expenses of our tenants and operators.***

Inflation, both real or anticipated as well as any resulting governmental policies, could adversely affect the economy and the costs of labor, goods and services to our tenants and operators. Increased operating costs could have an adverse impact if operating expenses exceed the pace of increases in revenue at our operating properties. Similarly, if increases in tenants' operating expenses exceed increases in their revenue, this may adversely affect our tenants' ability to pay rent owed to us. An increase in our tenants' expenses and a failure of their revenues to increase at least with inflation could adversely impact our tenants' and our financial condition and our results of operations.

***Inflation could rise at rates that outpace contractual or actual increases in rental income.***

Our long-term leases typically contain provisions, such as rent escalators, designed to mitigate the adverse impact of inflation. If the contractual or actual increases in rental income we receive from our operators do not keep pace with a rise in inflation, our financial condition and our results of operations could be adversely impacted.

***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.
- 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 becomes 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, face conflicts of interest as a result of their compensation arrangements with the Company, which could result in actions that are not in the best interest of the Company's stockholders.***

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

- the continuation, renewal, or enforcement of the Company's agreements with its Advisor and its affiliates;
- 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 the Company to make additional payments to the Advisor or its affiliates 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, and the Company may not be able to retain or replace key personnel and may have increased exposure to litigation.***

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 the Company's current stockholders and could reduce the net income per share and FFO per share attributable to their current stockholdings.

In addition, the Company may issue equity awards to officers and consultants, which would reduce the percentage of the Company's shares owned by the Company's current stockholders, 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 internalized management functions.

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 has 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 believes it operates as a REIT under the Code and believes the Company 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 fails to comply with one or more REIT qualification requirements, but nevertheless qualifies 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 sells 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 stockholders' 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 is in their best interest.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

## Item 2. PROPERTIES

As of December 31, 2021, we had investments in 73 real estate investment properties, as described in Item 1. “Business—Possible Strategic Alternatives”, including the five real estate properties owned through a 75% interest in an unconsolidated joint venture (the “Windsor Manor Joint Venture”). The following tables set forth details on our consolidated healthcare investment portfolio by asset class:

<b>Name and Location</b>	<b>Structure</b>	<b>Date Acquired</b>	<b>Encumbrance at 12/31/2021 (in millions)</b>	<b>Investment Amount (in millions)</b>
<b>Seniors Housing (Leased)</b>				
Primrose Retirement Community of Casper Casper, WY	Triple-net Lease	2/16/2012	\$ 10.4	\$ 19.0
Sweetwater Retirement Community Billings, MT	Triple-net Lease	2/16/2012	8.9	16.3
Primrose Retirement Community of Grand Island Grand Island, NE	Triple-net Lease	2/16/2012	7.3	13.4
Primrose Retirement Community of Mansfield Mansfield, OH	Triple-net Lease	2/16/2012	9.9	18.3
Primrose Retirement Community of Marion Marion, OH	Triple-net Lease	2/16/2012	8.2	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
<b>Senior Housing (Managed)</b>				
Brookridge Heights Assisted Living & Memory Care Marquette, MI	Managed	12/21/2012	—	18.5
Curry House Assisted Living & Memory Care Cadillac, MI	Managed	12/21/2012	—	13.5
Symphony Manor Baltimore, MD	Managed	12/21/2012	—	24.0
Woodholme Gardens Assisted Living & Memory Care Pikesville, MD (“Baltimore”)	Managed	12/21/2012	—	17.1

<b>Name and Location</b>	<b>Structure</b>	<b>Date Acquired</b>	<b>Encumbrance at 12/31/2021 (in millions)</b>	<b>Investment Amount (in millions)</b>
<b>Senior Housing (Managed) - continued</b>				
Tranquillity at Fredericktowne Frederick, MD	Managed	12/21/2012	\$ —	\$ 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	3/28/2014	—	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	—	48.3
MorningStar of Boise Boise, ID	Managed	12/2/2013	—	40.0
MorningStar of Idaho Falls Idaho Falls, ID	Managed	12/2/2013	—	44.4
MorningStar of Sparks Sparks, NV (“Reno”)	Managed	12/2/2013	—	55.2
Prestige Senior Living Arbor Place Medford, OR	Managed	12/2/2013	—	15.8
Prestige Senior Living Beaverton Hills Beaverton, OR (“Portland”)	Managed	12/2/2013	—	12.9
Prestige Senior Living Five Rivers Tillamook, OR	Managed	12/2/2013	—	16.7
Prestige Senior Living High Desert Bend, OR	Managed	12/2/2013	—	13.6
Prestige Senior Living Huntington Terrace Gresham, OR (“Portland”)	Managed	12/2/2013	—	15.0
Prestige Senior Living Orchard Heights Salem, OR	Managed	12/2/2013	—	17.8
Prestige Senior Living Riverwood Tualatin, OR (“Portland”)	Managed	12/2/2013	—	9.7
Prestige Senior Living Southern Hills Salem, OR	Managed	12/2/2013	—	12.9
Prestige Senior Living Auburn Meadows Auburn, WA (“Seattle”)	Managed	2/3/2014	—	21.9
Prestige Senior Living Bridgewood Vancouver, WA (“Portland”)	Managed	2/3/2014	—	22.1
Prestige Senior Living Monticello Park Longview, WA	Managed	2/3/2014	—	27.4
Prestige Senior Living Rosemont Yelm, WA	Managed	2/3/2014	—	16.9
Prestige Senior Living West Hills Corvallis, OR	Managed	3/3/2014	—	15.0

<b>Name and Location</b>	<b>Structure</b>	<b>Date Acquired</b>	<b>Encumbrance at 12/31/2021 (in millions)</b>	<b>Investment Amount (in millions)</b>
<b>Senior Housing (Managed) - continued</b>				
Isle at Cedar Ridge Cedar Park, TX (“Austin”)	Managed	2/28/2014	\$ —	\$ 22.0
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	23.4	49.0
Watercrest at Katy <sup>(1)</sup> 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 <sup>(2)</sup> 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

<b>Name and Location</b>	<b>Structure</b>	<b>Date Acquired</b>	<b>Encumbrance at 12/31/2021 (in millions)</b>	<b>Investment Amount (in millions)</b>
<b>Acute Care (Leased)</b>				
Hurst Specialty Hospital Hurst, TX (“Dallas/Fort Worth”)	Triple-net Lease	8/15/2014	\$ —	\$ 29.5
<b>Unimproved Land</b>				
Albuquerque NM, Land Owner Albuquerque, NM	Managed	9/7/2017	—	1.1
			<u>\$ 89.4</u>	<u>\$ 1,769.4</u>

**FOOTNOTES:**

- (1) Property owned through a consolidated joint venture in which we hold a 95% controlling interest.
- (2) Property owned through a consolidated joint venture in which we hold a 75% controlling interest.

As of December 31, 2021, we owned five real estate properties through a 75% interest in Windsor Manor Joint Venture, an unconsolidated joint venture. Effective January 1, 2022, we acquired the remaining 25% interest in the Windsor Manor Joint Venture from our joint venture partner and currently own a 100% interest in the Windsor Manor Joint Venture. The following tables set forth details on the property holdings of our investment in the unconsolidated Windsor Manor Joint Venture:

<b>Name and Location</b>	<b>Structure</b>	<b>Date Acquired</b>	<b>Encumbrance at 12/31/2021 (in millions)</b>	<b>Investment Amount (in millions)</b>
<b>Seniors Housing Managed</b>				
Windsor Manor of Vinton Vinton, IA	Managed	8/31/2012	\$ 2.8	\$ 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	5.6	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	5.4	6.5
			<u>\$ 18.5</u>	<u>\$ 31.1</u>

**Item 3. LEGAL PROCEEDINGS**

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

**Item 4. MINE SAFETY DISCLOSURES**

None.

## PART II

### **Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

#### **Market Information**

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

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

During the year ended December 31, 2021, our board of directors initiated a process to estimate the Company's NAV per share as of December 31, 2021 ("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 21, 2022, our board of directors accepted the recommendation of our Valuation Committee and approved an estimated NAV as of December 31, 2021 of \$7.37 per share, which includes deductions for estimated transaction costs (the "2021 NAV"). The Company previously announced an estimated NAV of \$7.38 per share as of December 31, 2020 (the "2020 NAV") and also previously announced an estimated NAV of \$7.81 per share as of December 31, 2019 (the "2019 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 22, 2022.

#### **Stockholder Information**

As of December 31, 2021, we had 46,233 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. Approximately \$16.4 million (1.6 million shares) of unsatisfied redemptions requests were placed in a redemption requests queue effective with the suspension of 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.

No requests for redemptions have been accepted subsequent to the July 2018 suspension of the Redemption Plan.

## 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, rising costs from inflation, 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, and cash flows provided by operating activities for each quarter in the years ended December 31, 2021, 2020 and 2019. On March 21, 2022, our Board approved \$0.0256 per share as the first quarter 2022 distribution (the “First Quarter Distribution”). The First Quarter Distribution represents a fifty percent (50%) discount from the previous quarter’s declared cash distribution. The First Quarter Distribution rate is the result of various factors including, without limitation, the continued COVID-19 impact on industry performance, inflation rates and volatility in the credit markets. We, along with our Board, will continue to monitor our cash flow and operating proceeds as well as our strategic alternatives process and make no assurances regarding future quarterly cash distributions.

The tax composition of our distributions declared for years ended December 31, 2021, 2020 and 2019 were as follows:

	Years Ended December 31,		
	2021	2020	2019
Ordinary income	43.82%	21.88%	0.00%
Capital gain	0.00%	0.62%	42.85%
Unrecaptured Sec. 1250 gain	0.00%	11.15%	20.10%
Return of capital	56.18%	66.35%	37.05%

Due to a variety of factors, the characterization of distributions declared for the year ended December 31, 2021 may not be indicative of the characterization of distributions that may be expected for the year ending December 31, 2022. 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, 2021, 2020 and 2019 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, 2021, 2020 and 2019, there were approximately 743,000 shares, 482,000 shares and 343,000 shares transferred between investors, respectively, at an average sales price per share of approximately \$4.13, \$4.73 and \$6.37, 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. RESERVED**

The selected financial data previously required by Item 301 of Regulation S-K has been omitted in reliance on SEC Release No. 33-10890.



## **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, 2019 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, 2020 as filed on March 15, 2021 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 2021, we extended the advisory agreement with the Advisor through June 2022 and effective with the renewal, reduced the asset management fee from 1.0% per annum to 0.8% per annum of average invested assets. 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.”

As of December 31, 2021, our healthcare investment portfolio consisted of interests in 73 properties, consisting of 71 senior housing communities, the Hurst Specialty Hospital and one vacant land parcel. 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. Five of our 71 seniors housing properties were owned through an unconsolidated joint venture as of December 31, 2021, which became wholly-owned effective January 1, 2022.

### **COVID-19**

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus (“COVID-19”) as a pandemic around the globe. Since the onset of the pandemic we have operated and continue to operate our communities through the disruptions and uncertainties of the pandemic, including disruptions from new variants of the virus during 2021. Average occupancy began to decline at the onset of the pandemic starting in the second half of March 2020 and trended lower through February 2021. We began to experience small occupancy gains each month starting in March 2021 as vaccines became available and regulatory move-in restrictions were lifted or relaxed. As monthly marginal occupancy gains continued, the rate of occupancy recovery during the latter part of 2021 was impacted by the arrival of the Delta and Omicron strands of the coronavirus during this time period. The spike in positive COVID-19 cases during the last half of 2021 and in January 2022 resulted in regulatory move-in restrictions at some of our communities and coupled with the seasonally cold temperatures impacted the rate of move-ins and occupancy increases during this period. Starting in February 2022, we experienced a decline in positive COVID-19 cases in our communities and benefitted from relaxed COVID-19 restrictions by local authorities which contributed to an increase in tours and move-ins at our communities. We anticipate continued marginal occupancy improvements each month during the year ending December 31, 2022.

Despite the marginal increases in occupancy during 2021, we experienced higher than anticipated compression in property level NOI margins in the last half of 2021 due to increases in operating expenses. Labor costs increased at higher rates and particularly during Q3 and Q4 as increased wages in a tight labor market were coupled with increases in usage of agency temporary personnel to fill vacancies from staff required to quarantine due to testing positive during the Delta and Omicron spikes in the last half of 2021. The impact of rising inflation began to surface in the form of higher food costs and other operating expenses, which also contributed to margin compressions. We have begun

implementing rate increases at our properties effective with renewals in 2022 which will result in an increase in revenues. COVID-19 positive cases amongst staff have begun to decline since the beginning of the year which we anticipate will reduce our use of agency labor during 2022. We anticipate that the rental rate increases will partially offset the increase in operating costs and will result in improved operating margins.

As of December 31, 2021, our 71 seniors housing communities were located throughout the United States in 26 states with a population of nearly 7,000 residents and approximately 4,700 community-level staff. As of March 21, 2022, as reported by our senior housing operators, we had 17 active, confirmed positive cases among our residents and staff members in seven of our communities located in six states. The number of confirmed cases in our senior housing communities has and will continue to fluctuate based on the duration, scope and depth of the COVID-19 pandemic, including new variants of the virus and vaccination rates, as well as the timing and extent of imposing/ceasing vaccine or mask mandates, or stay at home and other social distancing restrictions from state and local governmental agencies.

As of December 31, 2021, we had approximately \$67.3 million in liquidity (consisting of \$53.2 million in cash on hand and \$14.1 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. With respect to one of our third-party tenants that had been granted a rent deferral during May 2020, as of March 21, 2022, we have collected 100% of the \$2 million in rental deferrals and all rental amounts due under their lease agreements related to the 13 seniors housing properties leased to this tenant under NNN leases. In April 2021, we provided rent relief and entered into a rent deferral agreement with our other tenant that leases two properties under NNN leases (the “First Rent Deferral”). The tenant applied the entire balance of their security deposits against amounts due under their NNN leases and deferred the maximum \$0.9 million eligible for rent deferral under their First Rent Deferral agreement. The tenant may replenish the security deposits and repay any amounts deferred at any time but no later than August 2025. In exchange for the First Rent Deferral, our tenant exercised its first five-year renewal option under the terms of each of its leases and terminated and released us from any further promoted interest obligations under their development agreements. In December 2021, the tenant requested an additional \$1.4 million in rent relief which we provided in the form of a rent deferral (the “Second Rent Deferral”). The \$1.4 million deferral will be collected in monthly installments starting in 2023 through the end of the lease terms. We did not grant any rent concessions as part of either rent deferral provided to this tenant. As of March 21, 2022, we had deferred \$2.3 million of rental amounts and collected all other amounts due in accordance with the terms of the tenant's lease agreements.

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”). During the years ended December 31, 2021 and 2020, we received provider relief funds under the CARES Act, which are deemed governmental grants provided that the recipient attests to and complies with certain terms and conditions, and we recorded approximately \$0.5 million and \$5.3 million, respectively, as other income as all conditions of the provider relief funds had been met. We submitted our application for Phase 4 of provider relief funds under the CARES Act in September 2021 and as of March 21, 2022, are awaiting specific guidance from HHS on how Phase 4 relief will be distributed.

We believe we are taking appropriate actions to manage through the COVID-19 pandemic. The COVID-19 pandemic has had and may continue to have a material and adverse impact on our financial condition, results of operations and cash flows. The extent of the continued impact of COVID-19 on our financial condition results of operations and cash flows 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 severity and duration of the outbreak caused by new variants of the virus, (ii) the effectiveness and acceptance of vaccines, (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.

## **Possible Strategic Alternatives**

In 2017, we began evaluating possible strategic alternatives to provide liquidity to our 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 our or one of our subsidiaries’ common stock on a national securities exchange, (ii) an orderly disposition of our assets or one or more of our asset classes and the distribution of the net sale proceeds thereof to our stockholders and (iii) a potential business combination or other transaction with a third-party or parties that provides our stockholders 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. In addition, as part of executing on Possible Strategic Alternatives, our board of directors committed to a plan to sell 70 properties which included a portfolio of 63 properties (consisting of medical office buildings (“MOBs”), post-acute care facilities and acute care hospitals across the US), collectively (the “MOB/Healthcare Portfolio”) plus seven skilled nursing facilities. Through December 31, 2021, we sold 69 properties, received net sales proceeds of approximately \$1,449.7 million and used the net sales proceeds to: (1) repay indebtedness secured by the properties; (2) strategically rebalance other corporate borrowings; (3) make a special cash distribution in May 2019 of approximately \$347.9 million (\$2.00 per share) to our stockholders and (4) retained net sales proceeds for other corporate purposes, because we were focused on maintaining balance sheet strength and liquidity during COVID-19 to enhance financial flexibility. In addition to declaring the special distribution in May 2019, effective with the second quarter of 2019, our board of directors adjusted our regular quarterly cash distribution to an amount equal to \$0.0512 per share, compared to \$0.1164 per share that had been in effect since the third quarter of 2017. The adjustment to our regular cash distributions was the result of a reduction in our remaining earnings base and operating cash flows given the associated impact of the sale of real estate on our operating cash flows. In September 2020, we decided to discontinue marketing for sale our Hurst Specialty Hospital, our remaining property that our board had committed to sell, due to financial difficulties experienced by the tenant of this property. In March 2022, we entered into a purchase and sale agreement for this property with an unrelated third party for a gross sales price of \$8.5 million and expect to close on the sale of the Hurst Specialty Hospital by the second quarter of 2022.

During the year ended December 31, 2020, we shifted our focus away from the pursuit of larger strategic alternatives to provide further liquidity to our stockholders due to the market and industry disruptions in the seniors housing sector from COVID-19. However, our Special Committee continued working and 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 stockholders.

## **Inflation**

Prior to 2021, inflation had been low and had a minimal impact on our operating performance; however, inflation significantly increased starting in the last half of 2021 and may continue to be elevated or increase further. The impact of rising inflation began to surface in the form of higher food costs and other operating expenses, which contributed to margin compressions in our managed seniors housing communities. We have begun implementing rate increases at our managed properties effective with renewals in 2022 which will result in an increase in revenues. We anticipate that the rental rate increases will partially offset the increase in operating costs and will result in improved operating margins.

Our NNN leases contain provisions designed to mitigate the adverse impact of inflation, including contractual rent escalations and requirements for tenants to pay utilities, insurance, and real estate taxes, and certain capital expenditures related to the maintenance of our properties, thereby reducing our exposure to increases in property operating expenses resulting from inflation. However, increases in our tenants’ operating expenses and a failure of their revenues to increase at least with inflation may adversely affect our tenants’ ability to pay rent owed to us which could adversely impact our financial condition, cash flows and results of operations.

With respect to our outstanding indebtedness, we periodically evaluate our exposure to interest rate fluctuations, and may continue to enter into derivatives that mitigate, but do not eliminate, the impact of changes in interest rates on our variable rate loans.

### 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.

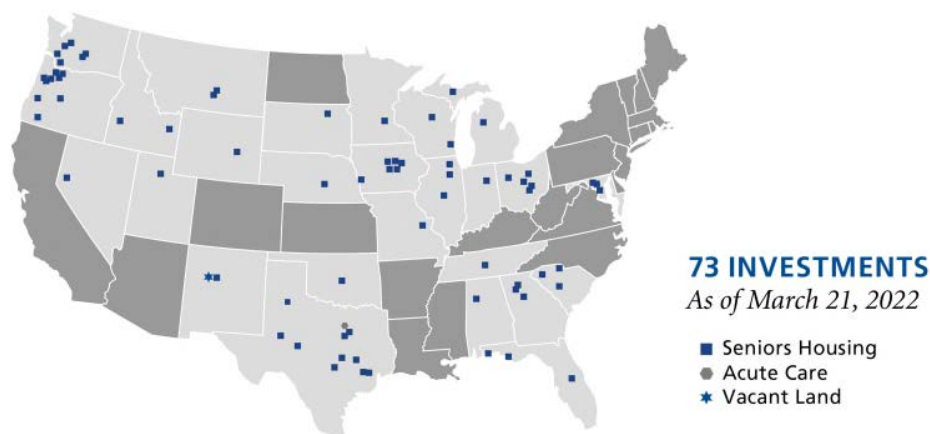
*Assisted Living Facilities.* Assisted living facilities are usually state-regulated rental properties that provide the same services as independent living facilities, but also provide, in a majority of the units, supportive care from trained employees to residents who are unable to live independently 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

As of December 31, 2021, our healthcare investment portfolio consisted of interests in 73 properties, comprising 71 senior housing communities, the Hurst Specialty Hospital and one vacant land parcel. Of our properties held as of December 31, 2021, five of our 71 seniors housing properties were owned through a 75% interest in the Windsor Manor Joint Venture, an unconsolidated joint venture. Effective January 1, 2022, we purchased the remaining 25% interest in the Windsor Manor Joint Venture from our joint venture partner and currently own a 100% interest in what is now a consolidated joint venture.

We believe demographic trends and compelling supply and demand indicators presented a strong case for an investment focus on seniors housing real estate and real estate-related assets. Our seniors housing investment portfolio is geographically diversified with properties in 26 states. The map below shows our seniors housing investment portfolio across geographic regions as of March 21, 2022:



The following table summarizes our seniors housing investment portfolio by investment structure as of March 21, 2022 and reflects the purchase of the remaining 25% interest in Windsor Manor Joint Venture, which was previously an unconsolidated joint venture:

<b>Type of Investment</b>	<b>Number of Investments</b>	<b>Amount of Investments (in millions)</b>	<b>Percentage of Total Investments</b>
<i>Consolidated investments:</i>			
Seniors housing leased <sup>(1)</sup>	15	\$ 311.0	17.3%
Seniors housing managed <sup>(2)(3)</sup>	56	1,458.9	81.0%
Seniors housing unimproved land	1	1.1	0.1%
Acute care leased <sup>(1)(4)</sup>	1	29.5	1.6%
	<u>73</u>	<u>\$ 1,800.5</u>	<u>100.0%</u>

**FOOTNOTES:**

- (1) Properties that are leased to third-party tenants for which we report rental income and related revenues.
- (2) Properties that are leased to TRS entities and managed pursuant to third-party management contracts (i.e. RIDEA structure) where we report resident fees and services, and the corresponding property operating expenses.
- (3) Includes five properties owned by Windsor Manor Joint Venture, which became wholly owned effective January 1, 2022. The joint venture was accounted for using the equity method through December 31, 2021.

**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.

When evaluating the performance of our seniors housing portfolio, management reviews property-level operating performance versus budgeted expectations, conducts periodic operational review calls with operators and conducts periodic property inspections or site visits. Management also reviews occupancy levels and monthly revenue per occupied unit, which we define as total revenue divided by average number of occupied units. 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 of 73 properties 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 March 21, 2022, excluding the vacant land parcel:

Tenants	Number of Properties	Rentable Square Feet (in thousands)	Percentage of Rentable Square Feet	Lease Expiration Year
TSM Management, LLC	13	1,261	74.8%	2025
Wellmore, LLC	2	366	21.7%	2031-2032
Other tenant	1	58	3.5%	2031
	<u>16</u>	<u>1,685</u>	<u>100.0%</u>	

Operators	Number of Properties	Rentable Square Feet (in thousands)	Percentage of Rentable Square Feet	Operator Expiration Year
Integrated Senior Living, LLC	7	1,948	30.4%	2022-2024
Prestige Senior Living, LLC	13	895	13.9%	2023-2024
Morningstar Senior Management, LLC	4	834	13.0%	2023
Other operators <sup>(1)</sup>	32	2,740	42.7%	2022-2029
	<u>56</u>	<u>6,417</u>	<u>100.0%</u>	

#### FOOTNOTE:

(1) Each operator comprises less than 10% of our consolidated square footage.

### Tenant Lease Expirations

As of December 31, 2021, we owned 15 seniors housing properties and the Hurst Specialty Hospital that were leased to third party tenants under triple-net operating leases. During the year ended December 31, 2021, our rental income from continuing operations represented approximately 10.2% 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 will be liable. Refer to “Liquidity and Capital Resources – Tenant Financial Difficulties” below for information on real estate taxes paid relating to the Hurst Specialty Hospital.

We work with our tenants 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. In April 2021, as part of providing temporary rent relief to the tenant of two of our properties, our tenant exercised its first renewal option extending the maturity date of each lease beyond 2030. In addition, we entered into new leases covering five of our properties that expired in February 2022. The new leases commenced February 2022 with the same tenant and will expire in 2025.

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

<b>Year of Expiration</b> <sup>(1)</sup>	<b>Number of Properties</b>	<b>Expiring Leased Square Feet</b>	<b>Expiring Annualized Base Rents</b> <sup>(2)</sup>	<b>Percentage of Expiring Annual Base Rents</b>
2022	—	—	\$ —	—
2023	—	—	—	—
2024	—	—	—	—
2025	13	1,261	20,609	66.5%
2026	—	—	—	—
2027	—	—	—	—
2028	—	—	—	—
2029	—	—	—	—
2030	—	—	—	—
2031	2	195	5,737	18.5%
Thereafter	1	229	4,653	15.0%
Total	<u>16</u>	<u>1,685</u>	<u>\$ 30,999</u>	<u>100.0%</u>

**Weighted Average Remaining Lease Term:** <sup>(3)</sup> 5.7 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 source of capital is proceeds from operating cash flows. Our primary uses of capital include the payment of distributions, payment of operating expenses, funding capital improvements to existing properties and payment of debt service. Generally, we expect to meet short-term working capital needs from our cash flows from operations. 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, 2021, we had approximately \$67.3 million of liquidity (consisting of \$53.2 million cash on hand and \$14.1 million in availability under the Revolving Credit Facility) and were well positioned to manage our near-term debt maturities and uses of cash within the next 12 months. 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 and impacts on operating expenses from the rise in inflation. The extent of the continued impact of COVID-19 on our financial condition, results of operations and cash flows 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 severity and duration of the outbreak caused by new variants of the virus, (ii) the effectiveness of and acceptance of vaccines, (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.

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, inflation and rising interest rates, 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 of two properties that were classified as discontinued operations, one of which was sold in February 2020 and the other which was sold 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. We retained the net sales proceeds for corporate purposes given our focus on maintaining a strong balance sheet, liquidity and financial flexibility because of the uncertainty relating to COVID-19. We did not sell any properties from continuing operations during the year ended December 31, 2021.

#### *Proceeds from Sale of Real Estate – Discontinued Operations*

As part of executing under our Possible Strategic Alternatives, during the year ended December 31, 2021, we closed on the sale of one acute care property and received net sales proceeds of \$7.4 million. During the year ended December 31, 2020, we closed on the sale of one post-acute care property and received net sales proceeds of \$28.4 million. We retained these net sales proceeds for corporate purposes to maintain liquidity due to COVID-19.

#### *Borrowings*

In September 2021, we entered into a new term loan agreement which provided for an additional \$150 million senior unsecured term loan facility (the "2021 Term Loan Facility") to complement and become part of our existing Credit Facilities. The 2021 Term Loan Facility has an initial term that is co-terminus with the Credit Facilities, maturing May 15, 2024, subject to one 12-month extension, and bears interest based on 30-day LIBOR plus a spread that varies with the Company's leverage ratio. The 2021 Term Loan Facility is pre-payable at any time in whole or part without fees or penalties, has a borrowing availability calculation that is subject to a similar borrowing base calculation as the Credit Facilities and contains similar affirmative, negative and financial covenants as the covenants in the Credit Facilities. We paid fees totaling approximately \$0.9 million to unrelated third parties and a refinancing fee to the Advisor of approximately \$1.5 million. See Item 8. "Financial Statements and Supplementary Data–Note 10. Related Party Arrangements" for additional information regarding the refinancing fee.



In October 2021, we borrowed \$238.0 million, which consisted of \$88 million drawn on our Revolving Credit Facility and \$150.0 million available under the 2021 Term Loan Facility to refinance approximately \$238.0 million of secured indebtedness in advance of its January 2022 maturity. In April 2020, we borrowed \$40.0 million from our 2019 Credit Facilities as a precautionary measure to increase liquidity and preserve financial flexibility in light of COVID-19 (which we repaid in September 2020). See “Liquidity and Capital Resources – Uses of Liquidity and Capital Resources – Debt Repayments” below for additional information regarding debt repayments during the years ended December 31, 2021 and 2020.

We may borrow money to fund enhancements to our portfolio, as well as to cover periodic shortfalls between distributions paid and cash flows from operating activities, to the extent impacted by the disruption and uncertainties from COVID-19.

#### *Net Cash Provided by Operating Activities – Continuing Operations*

Cash flows from operating activities for the years ended December 31, 2021 and 2020 were approximately \$46.4 million and \$62.1 million, respectively. The change in cash flows from operating activities for the year ended December 31, 2021 as compared to the same period in 2020 was primarily the result of the following:

- a decline in property net operating income (“NOI”), related to our seniors housing properties due to the COVID-19 pandemic, caused primarily by lower revenue and higher operating expenses; and
- the receipt of \$5.7 million in provider relief funds in 2020 (no provider relief funds were received in 2021); partially offset by
- lower interest expense resulting from lower weighted average debt outstanding due to principal repayments during 2020 and 2021 and lower cost of funds from the refinancing of secured indebtedness with our Credit Facilities in October 2021; and
- a decline in asset management fees to the Advisor lowering the AUM fee in May 2021 from 1% per annum to 0.8% per annum as part of the annual Advisory agreement renewal.

#### *Lease Renewals and Extensions*

In April 2021, as part of providing temporary rent relief to the tenant of two of our properties, our tenant exercised its first renewal option extending the maturity date of each lease beyond 2030. In addition, we entered into new leases covering five of our properties that expired in February 2022. The new leases with the same tenant commenced in February 2022 and will expire in February 2025. We do not have any leases expiring in the next 24 months.

#### *Tenant Financial Difficulties*

The tenant of our Hurst Specialty Hospital experienced financial difficulties during 2020, was unable to remain current under its lease obligation and we reserved \$1.2 million of past due 2020 rents and real estate tax receivables outstanding (all of which were reserved) as of December 31, 2020. We record rental income on a cash basis for this tenant because we assessed that collectability of lease payments was not probable. During the year ended December 31, 2021, we collected approximately \$2.2 million from the tenant, representing the majority of the rental amounts due under its lease agreement and have not collected rental amounts due from January through March 2022 in accordance with the terms of its lease agreement. We have initiated legal action and reserve the right to terminate the lease and/or remove the tenant if rental amounts are not collected. In March 2022, we entered into a purchase and sale agreement for this property with an unrelated third party for a gross sales price of \$8.5 million and expect to close on the sale of the Hurst Specialty Hospital by the second quarter of 2022. Refer to “Results of Operations — Impairment Provision” for further discussion on the impairment recorded related to this property.

#### *Distributions from Unconsolidated Entities*

As of December 31, 2021 and 2020, we had an investment in five unconsolidated properties through a 75% interest in an unconsolidated joint venture (the “Windsor Manor Joint Venture”). Pursuant to the joint venture agreement, we were entitled to receive quarterly preferred cash distributions to the extent there was cash available to distribute. These

distributions were generally received within 45 days after each quarter end. For the years ended December 31, 2021 and 2020, we received approximately \$0.7 million and \$0.3 million, respectively, of operating distributions from our investment in these unconsolidated entities. Effective January 1, 2022, we acquired the remaining 25% interest in the Windsor Manor Joint Venture for approximately \$3.3 million and currently own a 100% interest in the Windsor Manor Joint Venture. Effective January 1, 2022 we began consolidating the revenues and expenses of the five properties in the Windsor Manor Joint Venture and will not record distributions from unconsolidated joint ventures going forward.

As of December 31, 2021, the unconsolidated Windsor Manor Joint Venture in which we owned a 75% interest had outstanding indebtedness of \$18.5 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%. Annual scheduled payments of interest and principal are approximately \$1.1 million, \$1.1 million and \$17.3 million for the years ended December 31, 2022, 2023 and 2024, respectively. As a result of acquiring the remaining 25% interest in the Windsor Manor Joint Venture from our joint venture partner, effective January 1, 2022 we began consolidating the indebtedness of the Windsor Manor Joint Venture and will not have any Off-Balance Sheet Arrangements going forward. Refer to Item 2. “Properties” for additional information related to the five seniors housing communities owned through our Windsor Manor Joint Venture.

#### *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, 2021 or 2020. See Item 8. “Financial Statements and Supplementary Data — Note 10. Related Party Arrangements” for additional information.

### **Uses of Liquidity and Capital Resources**

#### *Capital Expenditures*

We paid approximately \$14.2 million and \$12.2 million in capital expenditures during the years ended December 31, 2021 and 2020, respectively.

#### *Debt Repayments*

During the year ended December 31, 2021, we paid approximately \$247.8 million, which included \$9.8 million of scheduled repayments on our mortgages and other notes payable and the October 2021 refinance of approximately \$238.0 million of secured indebtedness, consisting of debt collateralized by 22 properties, in advance of its scheduled maturity of January 2022. We added the 22 properties to the borrowing base of our unsecured Credit Facilities and used \$88 million from amounts available under the Revolving Credit Facility and the entire \$150 million available under the new 2021 Term Loan to repay our secured indebtedness. During the year ended December 31, 2020, we repaid approximately \$39.7 million of debt, which included approximately \$28.5 million of debt obligations that were scheduled to mature in June 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.

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.

The following table provides details of the Company's indebtedness as of December 31, 2021 and 2020, (in thousands):

	<b>As of December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Mortgages payable and other notes payable:</b>		
Fixed rate debt <sup>(1)</sup>	\$ 89,766	\$ 337,519
Premium <sup>(2)</sup>	59	101
Loan costs, net	(425)	(935)
<b>Total mortgages and other notes payable, net</b>	<b>89,400</b>	<b>336,685</b>
<b>Credit facilities:</b>		
Revolving Credit Facility <sup>(3)(4)(5)</sup>	88,000	—
Term Loan Facility <sup>(3)(5)</sup>	265,000	265,000
2021 Term Loan Facility <sup>(3)(5)</sup>	150,000	—
Loan costs, net related to Term Loan Facilities	(3,272)	(1,577)
<b>Total credit facilities, net</b>	<b>499,728</b>	<b>263,423</b>
<b>Total indebtedness, net</b>	<b>\$ 589,128</b>	<b>\$ 600,108</b>

**FOOTNOTES:**

- (1) As of December 31, 2021 and 2020, the Company's mortgages and other notes payable were collateralized by seven and 29 properties, respectively, with a total carrying value of approximately \$135.4 million and \$497.4 million, respectively.
- (2) Premium is reflective of the Company recording mortgage note payables assumed at fair value on the respective acquisition dates.
- (3) As of December 31, 2021 and 2020, the Company had entered into interest rate caps with notional amounts of approximately \$355.0 million and \$225.0 million, respectively. Refer to Item 8. "Financial Statements and Supplementary Data—Note 11. "Derivative Financial Instruments" for additional information.
- (4) As of December 31, 2021 and 2020, the Company had undrawn availability under the applicable revolving credit facility of approximately \$14.1 million and \$150.2 million, respectively, based on the value of the properties in the unencumbered pool of assets supporting the loan.
- (5) The 30-day LIBOR was approximately 0.10% and 0.14%, respectively, as of December 31, 2021 and 2020.

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, 2021 (in thousands):

2022	\$ 45,684
2023	111,407
2024	435,675
2025	—
2026	—
Thereafter	—
	<b>\$ 592,766</b>

As of December 31, 2021, we had approximately \$67.3 million of liquidity (consisting of \$53.2 million of cash on hand and \$14.1 million available under the Revolving Credit Facility) and were well positioned to manage our near-term debt maturities. We have \$45.7 million of scheduled principal payments coming due during the year ending December 31, 2022, which includes \$45.0 million relating to secured debt collateralized by five properties that matures in September 2022. We have been evaluating various options and estimate that the addition of the five properties to the borrowing base of our Credit Facilities would result in at least \$50 million of additional availability under our

Revolving Credit Facility. We will begin working with various lenders on repayment or refinancing options, including refinancing the facility with another lending institution as a secured debt 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, 2021 and 2020, we had aggregate debt leverage ratios of approximately 31.8% and 32.3%, respectively, of the aggregate carrying value of our assets. 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 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, 2021 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.

On March 21, 2022, our Board approved \$0.0256 per share as the first quarter 2022 distribution (the “First Quarter Distribution”). The First Quarter Distribution represents a fifty percent (50%) discount from the previous quarter’s declared cash distribution. The First Quarter Distribution rate is the result of various factors including, without limitation, the continued COVID-19 impact on industry performance, inflation rates and volatility in the credit markets. We, along with our Board, will continue to monitor our cash flow and operating proceeds as well as our strategic alternatives process and make no assurances regarding future quarterly cash distributions.

The following table represents total cash distributions declared, distributions reinvested and cash distributions per share, by quarter, for the years ended December 31, 2021, 2020 and 2019 (in thousands, except per share data):

Periods	Cash Distributions per Share	Total Cash Distributions Declared <sup>(1)</sup>	Cash Flows Provided by Operating Activities <sup>(2)</sup>
<b>2021 Quarters</b>			
First	\$ 0.05120	\$ 8,907	\$ 12,633
Second	0.05120	8,906	11,560
Third	0.05120	8,907	8,719
Fourth	0.05120	8,907	13,450
Total	<u>\$ 0.20480</u>	<u>\$ 35,627</u>	<u>\$ 46,362</u>
<b>2020 Quarters</b>			
First	\$ 0.05120	\$ 8,906	\$ 17,860
Second	0.05120	8,907	14,151
Third	0.05120	8,907	15,486
Fourth	0.05120	8,907	15,622
Total	<u>\$ 0.20480</u>	<u>\$ 35,627</u>	<u>\$ 63,119</u>
<b>2019 Quarters</b>			
First	\$ 0.11639	\$ 20,246	\$ 26,155
Second <sup>(3)</sup>	2.05120	356,832	10,835
Third	0.05120	8,907	16,905
Fourth	0.05120	8,907	6,055
Total	<u>\$ 2.26999</u>	<u>\$ 394,892</u>	<u>\$ 59,950</u>

#### FOOTNOTES:

- (1) For the years ended December 31, 2021, 2020 and 2019, our net (loss) income attributable to common stockholders was approximately (\$22.9) million, \$3.9 million and \$351.5 million, respectively, while cash distributions declared for each of the periods were approximately \$35.6 million, \$35.6 million and \$394.9 million, respectively, of which \$347.9 million for the year ended December 31, 2019 represented a special cash distribution that was funded with net sales proceeds from the sale of real estate. For the years ended December 31, 2021, 2020 and 2019, (excluding the special cash distribution paid during the year ended December 31, 2019) 100% 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.
- (2) 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 uses other measures such as FFO and MFFO in order to evaluate the level of distributions.
- (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.

#### Results of Operations

Except for the impact from the COVID-19 pandemic as described above in “COVID-19”, we are not aware of other material trends or uncertainties, favorable or unfavorable, that may be reasonably anticipated to have a material impact on either capital resources or the revenues or income to be derived from the operation of properties, other than those referred to in the risk factors identified in “Part I, Item 1A” of this report.

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, 2021 as compared to the fiscal year ended December 31, 2020***

As of December 31, 2021, excluding the five properties owned by the unconsolidated joint venture and our unimproved land, we owned 67 consolidated operating investment properties.

<b>Consolidated operating investment types:</b>	<b>Investment count as of</b>	
	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
Seniors housing leased	15	15
Seniors housing managed	51	51
Acute care leased	1	1
	<u>67</u>	<u>67</u>

*Rental Income and Related Revenues.* Rental income and related revenues were approximately \$30.1 million and \$26.3 million for the years ended December 31, 2021 and 2020, respectively. The increase in revenue was primarily 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, and \$2.2 million of rent collected from our Hurst Specialty Hospital during 2021, partially offset by the sale of the six skilled nursing facilities located in Arkansas (“Perennial Communities”) in March 2020.

*Resident Fees and Services.* Resident fees and services income was approximately \$265.3 million and \$280.9 million for the years ended December 31, 2021 and 2020, respectively. As described above in “COVID-19”, resident fees and services were negatively impacted starting in mid-March 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.

*Property Operating Expenses.* Property operating expenses were approximately \$197.6 million and \$193.4 million for the years ended December 31, 2021 and 2020, respectively. Property operating expenses increased during the year ended December 31, 2021 primarily as a result of increased labor costs primarily driven by higher wages and usage of agency labor in a tight labor market and an increase in operating expenses due to inflation.

*General and Administrative Expenses.* General and administrative expenses were approximately \$9.1 million and \$9.4 million for the years ended December 31, 2021 and 2020, respectively. 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.

*Asset Management Fees.* We incurred asset management fees of approximately \$15.7 million and \$18.1 million for the years ended December 31, 2021 and 2020, respectively. Asset management fees 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. In May 2021, our Advisor amended the advisory agreement, effective May 26, 2021, to reduce asset management fees from 1.0% per annum to 0.80% per annum of average invested assets, resulting in reduced asset management fees expense for the year ended December 31, 2021.

*Property Management Fees.* We incurred property management fees payable to our third-party property managers of approximately \$13.0 million and \$13.8 million for the years ended December 31, 2021 and 2020, respectively. The decrease across periods is reflective of the decrease in resident fees and service revenue over the same period.

*Depreciation and Amortization.* Depreciation and amortization expenses were approximately \$50.4 million and \$51.8 million for the years ended December 31, 2021 and 2020, respectively. Depreciation and amortization expenses are comprised of depreciation and amortization of the buildings, equipment, land improvements and in-place leases related to our real estate portfolio.

*Impairment Provision.* As described above in “Liquidity and Capital Resources – Tenant Financial Difficulties,” in March 2022 we entered into a purchase and sale agreement for the Hurst Specialty Hospital with an unrelated third party for a gross sales price of \$8.5 million. In conjunction therewith, we determined that the carrying value of this

property was not recoverable and during the year ended December 31, 2021, we recorded an impairment provision of approximately \$9.8 million to write-down the value of our Hurst Specialty Hospital to its estimated sales proceeds expected from the sale of the Hurst Specialty Hospital. There was no impairment provision recorded during the year ended December 31, 2020.

*Gain on Sale of Real Estate.* We did not sell any properties from continuing operations during the year ended December 31, 2021. Gain on sale of real estate relating to the sale of the Perennial Communities was approximately \$1.1 million for the year ended December 31, 2020.

*Interest and Other Income.* Interest and other income was approximately \$0.7 million and \$5.7 million for the years ended December 31, 2021 and 2020, respectively. Other income includes approximately \$0.5 million and \$5.3 million in CARES Act Provider Relief Funds (“PRFs”) recorded as other income during the years ended December 31, 2021 and 2020, respectively, as conditions of the grant were met. See “COVID-19” above and Item 8. “Financial Statements and Supplemental Data – 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 were approximately \$19.7 million and \$24.3 million for the years ended December 31, 2021 and 2020, respectively. The decrease in interest expense and loan cost amortization was primarily the result of the reduction in average debt outstanding as a result of principal repayments during 2020 and 2021 and a reduction in weighted average interest costs as a result of refinancing approximately \$238.0 million of secured indebtedness in October 2021 with proceeds from our Credit Facilities.

*Income Tax Expense.* We incurred income tax expense of approximately \$4.2 million and \$1.1 million for the years ended December 31, 2021 and 2020, respectively. The increase in income tax expense during the year ended December 31, 2021, is primarily attributable to an increase in our valuation allowance of \$3.6 million against deferred tax assets driven by continued margin pressure on our managed properties resulting from the COVID-19 pandemic and other market conditions, including inflation.

## **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 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, 2021 and 2020 (in thousands) and the amount invested in properties as of December 31, 2021 and 2020 (in millions), excluding properties classified as discontinued operations:

	<b>Years Ended December 31,</b>		<b>Change</b>	
	<b>2021</b>	<b>2020</b>	<b>\$</b>	<b>%</b>
Net (loss) income	\$ (22,866)	\$ 4,011		
Adjusted to exclude:				
General and administrative expenses	9,116	9,413		
Asset management fees	15,733	18,051		
Impairment provision	9,790	—		
Depreciation and amortization	50,417	51,817		
Gain on sale of real estate	—	(1,074)		
Other expenses, net of other income	18,505	17,580		
Income tax expense	4,174	1,098		
Loss (income) from discontinued operations	10	(954)		
NOI	\$ 84,879	\$ 99,942	\$ (15,063)	(15.1)%
Less: Non-same-store NOI	—	962		
Same-store NOI	\$ 84,879	\$ 98,980	\$ (14,101)	(14.2)%
Invested in operating properties, end of period	\$ 1,768	\$ 1,768		

Overall, our same-store NOI for the years ended December 31, 2021 and 2020 decreased by approximately \$14.1 million, respectively, as compared to the same period in the prior year. As described above in “COVID-19”, same store NOI was negatively impacted as a result of declines in property occupancy levels, resident fees and services affected by move-in restrictions and an increase in expenses related to intensified screening and other measures enacted at our communities to address the spread of COVID-19 as well as rising costs from inflation.

#### **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 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 to FFO and MFFO for the years ended December 31, 2021, 2020 and 2019 (in thousands, except per share data):

	<b>Year Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Net (loss) income attributable to common stockholders	\$ (22,882)	\$ 3,912	\$ 351,496
Adjustments:			
Depreciation and amortization:			
Continuing operations	50,417	51,817	49,823
Impairment provision:			
Continuing operations	9,790	—	—
Gain on sale of real estate:			
Continuing operations	—	(1,074)	(432)
Discontinued operations	—	—	(336,074)
FFO adjustments attributable to noncontrolling interests:			
Continuing operations	(184)	(192)	(192)
Discontinued operations	—	—	261
FFO adjustments from unconsolidated entities <sup>(1)</sup>	947	266	112
FFO attributable to common stockholders	38,088	54,729	64,994
Straight-line rent adjustments: <sup>(2)</sup>			
Continuing operations	1,231	1,697	733
Discontinued operations	—	—	(1,242)
Write-off of lease related costs: <sup>(3)</sup>			
Continuing operations	—	2,468	—
Discontinued operations	—	103	67
Amortization of premium for debt investments:			
Continuing operations	(42)	(42)	(42)
Realized gain on extinguishment of debt: <sup>(4)</sup>			
Continuing operations	43	35	1,163
Discontinued operations	—	—	3,339
Unrealized gain on investment in short term securities: <sup>(5)</sup>			
Continuing operations	—	11	186
Discontinued operations	—	—	(429)
MFFO adjustments attributable to noncontrolling interests:			
Continuing operations	1	9	—
Discontinued operations	—	—	(9)
MFFO attributable to common stockholders	\$ 39,321	\$ 59,010	\$ 68,760
Weighted average number of shares of common stock outstanding (basic and diluted)	173,960	173,960	173,963
Net (loss) income per share (basic and diluted)	\$ (0.13)	\$ 0.02	\$ 2.02
FFO per share (basic and diluted)	\$ 0.22	\$ 0.31	\$ 0.37
MFFO per share (basic and diluted)	\$ 0.23	\$ 0.34	\$ 0.40

**FOOTNOTES:**

- (1) This amount represents our share of the FFO or MFFO adjustments allowable under the NAREIT or IPA definitions, respectively, calculated using the HLBV method.
- (2) Under GAAP, rental receipts are allocated to periods using various methodologies. This may result in income or expense recognition that is significantly different than underlying contract terms. By adjusting for these items (from a GAAP accrual basis in order to reflect such payments on a cash basis of amounts expected to be received for such lease and rental payments), MFFO provides useful supplemental information on the realized economic impact of lease terms and debt investments, providing insight on the contractual cash flows of such lease terms and debt investments, and aligns results with management's analysis of operating performance.
- (3) 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, we recorded write-offs totaling approximately \$2.6 million for deferred rent from prior GAAP straight-line adjustments, unamortized lease costs and lease related intangibles.

- (4) Management believes that adjusting for the realized gain on the extinguishment of debt, 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.
- (5) Management believes that adjusting for the unrealized gain on investment in short term securities is appropriate because the adjustment is not reflective of our ongoing operating performance and, as a result, the adjustments better align results with management's analysis of operating performance.

### **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, 2021, 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. See Item 8. "Financial Statements and Supplemental Data – Note 2. Summary of Significant Accounting Policies" in the accompanying consolidated financial statements for additional information.

*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 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 still 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 may have a material adverse effect on the Company's results and financial condition.

The COVID-19 pandemic has had and may continue to have a material and adverse impact on our financial condition, results of operations and cash flows. The extent of the continued impact of COVID-19 on our financial condition, results of operations and cash flows 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 severity and duration of the outbreak caused by new variants of the virus, (ii) the effectiveness and acceptance of vaccines, (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.

*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 common 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. In March 2022, we received an unsolicited offer and entered into a purchase and sale agreement for the Hurst Specialty Hospital with an unrelated third party for a gross sales price of \$8.5 million. In conjunction therewith, we determined that the carrying value of this property was not recoverable and during the year ended December 31, 2021, we recorded an impairment provision of approximately \$9.8 million to write-down the value of our Hurst Specialty Hospital to its estimated sales proceeds expected from the sale of the Hurst Specialty Hospital.

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. Summary of 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, 2021 of our fixed and variable rate debt maturities for each of the next five years and thereafter (principal maturities only) (in thousands):

	Expected Maturities					Total	Fair Value <sup>(1)</sup>
	2022	2023	2024	2025	2026		
Fixed rate debt	\$ 45,684	\$ 23,407	\$ 20,675	\$ —	\$ —	\$ —	\$ 89,766
Weighted average interest rate on fixed rate debt	4.12%	4.65%	3.25%	—	—	—	4.06%
Variable rate debt	\$ —	\$ 88,000	\$ 415,000	\$ —	\$ —	\$ —	\$ 503,000
Average interest rate on variable rate debt	—	1.52% +LIBOR	1.51% +LIBOR	—	—	—	1.51% +LIBOR

**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, 2021. 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 LIBOR rates as of December 31, 2021, considering the impact of our interest rate caps, would increase interest expense approximately \$1.5 million for the year ended December 31, 2021. 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, 2021, the Company's debt is comprised of approximately 15.1% in fixed rate debt, approximately 59.9% in variable rate debt with current interest rate protection and approximately 25.0% 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

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## **Report of Independent Registered Public Accounting Firm**

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

### ***Opinion on the Financial Statements***

We have audited the accompanying consolidated balance sheets of CNL Healthcare Properties, Inc. and its subsidiaries (the “Company”) as of December 31, 2021 and 2020, 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, 2021, 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, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 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 \$1.3 billion as of December 31, 2021. 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 23, 2022

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)

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
Real estate investment properties, net (including VIEs \$42,612 and \$43,890, respectively)	\$ 1,347,229	\$ 1,392,860
Assets held for sale, net	—	7,421
Cash (including VIEs \$1,597 and \$505, respectively)	53,161	61,475
Restricted cash (including VIEs \$59 and \$102, respectively)	4,520	4,536
Other assets (including VIEs \$544 and \$524, respectively)	18,700	23,341
Deferred rent, lease incentives and intangibles, net	12,970	14,408
Total assets	<u>\$ 1,436,580</u>	<u>\$ 1,504,041</u>
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Mortgages and other notes payable, net (including VIEs \$28,855 and \$29,158, respectively)	\$ 89,400	\$ 336,685
Credit facilities	499,728	263,423
Accounts payable and accrued liabilities (including VIEs \$1,489 and \$490, respectively)	29,170	24,519
Other liabilities (including VIEs \$299 and \$242, respectively)	6,115	8,255
Due to related parties	1,406	1,780
Liabilities associated with assets held for sale	—	10
Total liabilities	<u>625,819</u>	<u>634,672</u>
Commitments and contingencies (Note 14)		
Redeemable noncontrolling interest	520	572
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	1,740	1,740
Capital in excess of par value	1,516,926	1,516,926
Accumulated income	101,861	124,743
Accumulated distributions	(811,493)	(775,866)
Accumulated other comprehensive income (loss)	10	(35)
Total stockholders' equity	<u>809,044</u>	<u>867,508</u>
Noncontrolling interest	1,197	1,289
Total equity	<u>810,761</u>	<u>869,369</u>
Total liabilities and equity	<u>\$ 1,436,580</u>	<u>\$ 1,504,041</u>

The abbreviation VIEs above means variable interest entities.

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2021	2020	2019
<b>Revenues:</b>			
Rental income and related revenues	\$ 30,101	\$ 26,287	\$ 37,786
Resident fees and services	265,321	280,854	288,344
Total revenues	<u>295,422</u>	<u>307,141</u>	<u>326,130</u>
<b>Operating expenses:</b>			
Property operating expenses	197,562	193,427	188,578
General and administrative expenses	9,116	9,413	13,217
Asset management fees	15,733	18,051	18,593
Property management fees	12,981	13,772	12,840
Financing coordination fees	—	—	1,878
Impairment provision	9,790	—	—
Depreciation and amortization	50,417	51,817	49,823
Total operating expenses	<u>295,599</u>	<u>286,480</u>	<u>284,929</u>
Gain on sale of real estate	—	1,074	432
Operating (loss) income	<u>(177)</u>	<u>21,735</u>	<u>41,633</u>
<b>Other income (expense):</b>			
Interest and other income	720	5,655	1,531
Interest expense and loan cost amortization	(19,696)	(24,285)	(39,618)
Equity in earnings of unconsolidated entity	471	1,050	731
Total other expense	<u>(18,505)</u>	<u>(17,580)</u>	<u>(37,356)</u>
(Loss) income before income taxes	(18,682)	4,155	4,277
Income tax expense	<u>(4,174)</u>	<u>(1,098)</u>	<u>(2,211)</u>
(Loss) income from continuing operations	(22,856)	3,057	2,066
(Loss) income from discontinued operations	(10)	954	349,730
Net (loss) income	<u>(22,866)</u>	<u>4,011</u>	<u>351,796</u>
<b>Less: Amounts attributable to noncontrolling interests</b>			
Net income from continuing operations	16	99	35
Net income from discontinued operations	—	—	265
Net (loss) income attributable to common stockholders	<u>\$ (22,882)</u>	<u>\$ 3,912</u>	<u>\$ 351,496</u>
<b>Net (loss) income per share of common stock (basic and diluted)</b>			
Continuing operations	<u>\$ (0.13)</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>
Discontinued operations	<u>\$ —</u>	<u>\$ 0.01</u>	<u>\$ 2.01</u>
Weighted average number of shares of common stock outstanding (basic and diluted)	<u>173,960</u>	<u>173,960</u>	<u>173,963</u>

See accompanying notes to consolidated financial statements.

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

	<b>Years Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Net (loss) income	\$ (22,866)	\$ 4,011	\$ 351,796
Other comprehensive income (loss):			
Unrealized gain (loss) on derivative financial instruments, net	40	11	(980)
Reclassification of interest rate swaps upon derecognition	—	—	(509)
Reclassification of interest rate caps upon derecognition	—	2	265
Unrealized gain (loss) on derivative financial instruments of equity method investments	5	(12)	11
Total other comprehensive income (loss)	45	1	(1,213)
Comprehensive (loss) income	(22,821)	4,012	350,583
Less: Comprehensive income (loss) attributable to noncontrolling interest	16	99	300
Comprehensive (loss) income attributable to common stockholders	\$ (22,837)	\$ 3,913	\$ 350,283

See accompanying notes to consolidated financial statements.

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

	Redeemable Noncontrolling Interest	Common Stock		Capital in Excess of Par Value	Accumulated Income (Loss)	Accumulated Distributions	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity	Non- controlling Interest	Total Equity
		Number of Shares	Par Value							
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)
Contribution 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
Net income (loss)	60	—	—	—	(22,882)	—	—	(22,882)	(44)	(22,866)
Other comprehensive income	—	—	—	—	—	—	45	45	—	45
Distributions to noncontrolling interests	(112)	—	—	—	—	—	—	—	(48)	(160)
Cash distributions declared (\$0.20480 per share)	—	—	—	—	—	(35,627)	—	(35,627)	—	(35,627)
Balance at December 31, 2021	\$ 520	173,960	\$ 1,740	\$ 1,516,926	\$ 101,861	\$ (811,493)	\$ 10	\$ 809,044	\$ 1,197	\$ 810,761

See accompanying notes to consolidated financial statements.

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

	<b>Years Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Operating activities:</b>			
Net (loss) income	\$ (22,866)	\$ 4,011	\$ 351,796
Net (loss) income from discontinued operations	(10)	954	349,730
Net (loss) income from continuing operations	(22,856)	3,057	2,066
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	50,417	51,817	49,823
Amortization of loan costs	2,193	2,041	2,509
Amortization of premium for debt investments	(42)	(42)	(42)
Straight-line rent adjustments	1,231	1,697	733
Deferred income tax benefit	3,632	553	1,682
Loss on extinguishment of debt	43	35	804
Impairment provision	9,790	—	—
Write-off of deferred rent and lease related costs	—	2,468	—
Gain on sale of real estate	—	(1,074)	(432)
Other non-cash operating activities	1,304	1,212	2,189
Changes in operating assets and liabilities:			
Other assets	(1,326)	1,299	(5,789)
Deferred rent and lease incentives	(250)	—	—
Accounts payable and accrued liabilities	4,718	505	2,198
Other liabilities	(2,108)	(1,003)	42
Due to related parties	(374)	(495)	(977)
Net cash flows provided by operating activities – continuing operations	46,372	62,070	54,806
Straight-line rent adjustments	—	—	(1,242)
Loss on extinguishment of debt	—	—	2,547
Write-off of deferred rent and lease related costs	—	103	67
Gain on sale of real estate	—	—	(336,074)
Changes in operating assets and liabilities:			
Other assets	14	—	—
Accounts payable and accrued liabilities	(8)	3	(6,265)
Other liabilities	(3)	1	(4,203)
Other operating activities	(3)	(12)	584
Net cash flows (used in) provided by operating activities – discontinued operations	(10)	1,049	5,144
Net cash flows provided by operating activities	46,362	63,119	59,950
<b>Investing activities:</b>			
Proceeds from sale of real estate	—	53,712	5,989
Capital expenditures	(14,186)	(12,231)	(6,409)
Other investing activities	35	41	1,676
Net cash (used in) provided by investing activities – continuing operations	(14,151)	41,522	1,256
Proceeds from sale of real estate	7,402	28,398	1,354,461
Capital expenditures	—	—	(1,466)
Other investing activities	—	—	(723)
Net cash provided by investing activities – discontinued operations	7,402	28,398	1,352,272
Net cash (used in) provided by investing activities	\$ (6,749)	\$ 69,920	\$ 1,353,528

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

	<b>Years Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Financing activities:</b>			
Distributions to stockholders, net of distribution reinvestments	\$ (35,627)	\$ (35,627)	\$ (394,892)
Redemptions of common stock	—	—	(23)
Draws under credit facilities	238,000	40,000	95,000
Proceeds from mortgage and other notes payable	—	—	21,452
Payment of loan costs	(2,404)	(122)	(6,413)
Principal payments on mortgages and other notes payable	(247,753)	(39,737)	(680,864)
Repayments on credit facilities	—	(80,000)	(464,125)
Other financing activities	(159)	(79)	(577)
Net cash flows used in financing activities	(47,943)	(115,565)	(1,430,442)
Net (decrease) increase in cash and restricted cash	(8,330)	17,474	(16,964)
Cash and restricted cash at beginning of period, including assets held for sale	66,011	48,537	65,501
Cash and restricted cash at end of period, including assets held for sale	<u>\$ 57,681</u>	<u>\$ 66,011</u>	<u>\$ 48,537</u>
<b>Supplemental disclosure of cash flow information (continuing operations):</b>			
Cash paid for interest	<u>\$ 17,615</u>	<u>\$ 23,181</u>	<u>\$ 39,250</u>
Cash paid for taxes, net	<u>\$ 690</u>	<u>\$ 737</u>	<u>\$ 641</u>

See accompanying notes to consolidated financial statements.



CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2021

1. Organization

CNL Healthcare Properties, Inc. (the “Company”) is a Maryland corporation that has elected to be taxed as a real estate investment trust (“REIT”) for United States (“U.S.”) federal income tax purposes. 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.

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 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. As of December 31, 2021, the Company had sold 69 of these 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 and in March 2022, entered into a purchase and sale agreement to sell this last property it had previously planned to sell. Refer to Note 16. “Subsequent Events” for additional information.

As of December 31, 2021, the Company’s healthcare investment portfolio was geographically diversified with properties in 26 states and consisted of interests in 73 properties, including 71 senior housing communities, the Hurst Specialty Hospital and one vacant land parcel. 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.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2021

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.

*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”). Grant income is recognized upon receipt of grant income and when all the conditions of the grant have been met. During the years ended December 31, 2021 and 2020, the Company received provider relief funds (“PRFs”) and recorded approximately \$0.5 million and \$5.3 million, respectively, as other income in the accompanying consolidated statements of operations as all conditions of the grant had been met. In September 2021, HHS announced that additional funds were made available for healthcare providers under Phase 4 of the Provider Relief Fund. The Company submitted an application under Phase 4 in September 2021 and is awaiting specific guidance from HHS on how Phase 4 relief will be distributed.

*Risks and Uncertainties* — In March 2020, the World Health Organization declared the outbreak of the novel coronavirus (“COVID-19”) as a pandemic around the globe. Since the onset of the pandemic, we have operated and continue to operate our communities through the disruptions and uncertainties of the pandemic, including disruptions from new variants of the virus during 2021. The COVID-19 pandemic has had and may continue to have a material and adverse impact on our financial condition, results of operations and cash flows. The extent of the continued impact of COVID-19 on our financial condition results of operations and cash flows 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 severity and duration of the outbreak caused by new variants of the virus, (ii) the effectiveness and acceptance of vaccines, (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.

*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 common stock (“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.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
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YEAR ENDED DECEMBER 31, 2021

2. Summary of Significant Accounting Policies (Continued)

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.

*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.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2021

2. Summary of Significant Accounting Policies (Continued)

*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, 2021, 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, 2021 and 2020, the accumulated amortization of loan costs was approximately \$9.5 million and \$8.3 million, respectively.

*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.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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2. Summary of Significant Accounting Policies (Continued)

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.

*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.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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2. Summary of Significant Accounting Policies (Continued)

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, 2021 and 2020 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.

*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 stockholders 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.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2021

2. Summary of Significant Accounting Policies (Continued)

*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.

*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.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
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2. Summary of Significant Accounting Policies (Continued)

*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.

*Recently Adopted Accounting Pronouncements* — In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" ("ASU 2019-12"), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This new guidance was effective for the Company beginning on January 1, 2021 and did not have a material impact on the Company's financial statements.

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. As of December 31, 2021, the Company does not anticipate that this guidance will have a material impact on its consolidated financial statements; however, the Company will continue to assess the potential impact on its variable rate debt contracts and future hedging relationships, as applicable.

In November 2021, the Financial Accounting Standards Board ("FASB") issued ASU 2021-10, Government Assistance (Topic 832) ("ASU 2021-10"). ASU 2021-10 requires annual disclosures about transactions with a government that are accounted for by applying a grant or contribution model by analogy to other accounting guidance, including information about the nature of the transactions and related accounting policy used to account for the transactions, the financial statement line items affected by the transactions and the applicable amounts, and significant terms and conditions of the transactions. ASU 2021-10 is effective for annual periods beginning after December 15, 2021, with early adoption permitted. The Company early adopted ASU 2021-10, and the adoption of ASU 2021-10 did not have a material impact on the Company's financial statements.



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3. Revenue

The following table presents disaggregated revenue related to the Company's resident fees and services during the years ended December 31, 2021, 2020 and 2019:

	Years Ended December 31,								
	Number of Units			Revenues (in millions)			Percentage of Revenues		
	2021	2020	2019	2021	2020	2019	2021	2020	2019
<i>Resident fees and services:</i>									
Independent living	2,243	2,256	2,261	\$ 69.6	\$ 72.6	\$ 74.3	26.2%	25.9%	25.8%
Assisted living	2,960	2,947	2,966	128.9	138.1	140.5	48.6%	49.2%	48.7%
Memory care	904	904	853	53.2	57.7	59.4	20.1%	20.5%	20.6%
Other revenues	—	—	—	13.6	12.5	14.1	5.1%	4.4%	4.9%
	<u>6,107</u>	<u>6,107</u>	<u>6,080</u>	<u>\$ 265.3</u>	<u>\$ 280.9</u>	<u>\$ 288.3</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

4. Real Estate Assets, net

The gross carrying amount and accumulated depreciation of the Company's real estate assets as of December 31, 2021 and 2020 are as follows, excluding assets held for sale (in thousands):

	December 31, 2021	December 31, 2020
Land and land improvements	\$ 133,339	\$ 132,663
Building and building improvements	1,497,143	1,501,107
Furniture, fixtures and equipment	101,602	94,141
Less: accumulated depreciation	(384,855)	(335,051)
Real estate investment properties, net	<u>\$ 1,347,229</u>	<u>\$ 1,392,860</u>

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.

As described in Note 1. "Organization", 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.

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4. Real Estate Assets, net (Continued)

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.

In March 2022, the Company entered into a purchase and sale agreement for the Hurst Specialty Hospital with an unrelated third party for a gross sales price of \$8.5 million. In conjunction therewith, the Company determined that the carrying value of this property was not recoverable and during the year ended December 31, 2021, recorded an impairment provision of approximately \$9.8 million to write-down the carrying value of its Hurst Specialty Hospital to its estimated sales proceeds expected from the sale of the Hurst Specialty Hospital. As a result, the Hurst Specialty Hospital was carried at fair value as of December 31, 2021. The Level 3 unobservable inputs used in determining the fair value were based on estimated sales proceeds. The Company did not record impairment provisions from continuing operations during the years ended December 31, 2020 and 2019, or have any investment properties carried at fair value as of December 31, 2020.

Depreciation expense on the Company's real estate investment properties, net was approximately \$50.0 million, \$51.4 million and \$49.4 million for the years ended December 31, 2021, 2020 and 2019, 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, 2021 and 2020 are as follows (in thousands):

	<u>As of December 31,</u>	
	<u>2021</u>	<u>2020</u>
In-place lease intangibles	\$ 3,944	\$ 3,944
Less: accumulated depreciation	(3,512)	(3,118)
Intangible assets, net	<u>\$ 432</u>	<u>\$ 826</u>

For each of the years ended December 31, 2021, 2020 and 2019, amortization on the Company's intangible assets was approximately \$0.4 million, all of which was included in depreciation and amortization in the Company's consolidated statements of operations.

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, 2021 is as follows (in thousands):

2022	\$ 253
2023	74
2024	74
2025	31
2026	—
Thereafter	—
	<u>\$ 432</u>

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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, and excluding the Hurst Specialty Hospital, which the Company ceased marketing for sale as described above in Note 4. “Real Estate Assets, net,” the Company’s board of directors agreed to a plan to sell 69 properties, 62 of which met the criteria for classification as discontinued operations as further described below. During the years ended December 31, 2021, 2020 and 2019, the Company sold one acute care property, one property and 60 properties, respectively. As of December 31, 2021, the Company did not have any properties classified as held for sale.

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):

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

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 following table is a summary of income from discontinued operations for the years ended December 31, 2021, 2020 and 2019 (in thousands):

	<u>Years Ended</u>		
	<u>December 31,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
<b>Revenues:</b>			
Rental income and related revenues	\$ 6	\$ 1,266	\$ 46,073
<b>Operating expenses:</b>			
Property operating expenses	3	7	11,333
General and administrative	3	138	411
Asset management fees	8	139	4,689
Property management fees	5	28	1,257
Total operating expenses	19	312	17,690
Gain on sale of real estate	—	—	336,074
Operating (loss) income	(13)	954	364,457
<b>Other income (expense):</b>			
Interest and other income	—	—	56
Interest expense and loan cost amortization	—	—	(14,618)
Total other income (expense)	—	—	(14,562)
(Loss) income before income taxes	(13)	954	349,895
Income tax benefit (expense)	3	—	(165)
(Loss) income from discontinued operations	<u>\$ (10)</u>	<u>\$ 954</u>	<u>\$ 349,730</u>

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
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7. Operating Leases

As of December 31, 2021, the Company owned 15 seniors housing properties and the Hurst Specialty Hospital 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 will be liable for such amounts. As of December 31, 2021, the total annualized property tax assessed on these properties was approximately \$3.2 million.

As of December 31, 2021, the Company's triple-net operating leases had a weighted average remaining lease term of 5.7 years based on annualized base rents expiring between 2025 and 2032, 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.

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, 2021 (in thousands):

2022	\$	28,754
2023		29,013
2024		29,508
2025		22,926
2026		11,737
Thereafter		64,451
	\$	<u>186,389</u>

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

8. Variable Interest Entities

As of December 31, 2021 and 2020, 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.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
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8. Variable Interest Entities (Continued)

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, 2021 and 2020 are as follows (in thousands):

	<u>As of December 31,</u>	
	<u>2021</u>	<u>2020</u>
<b>Assets:</b>		
Real estate investment properties, net	\$ 42,612	\$ 43,890
Cash	\$ 1,597	\$ 505
Restricted cash	\$ 59	\$ 102
Other assets	\$ 544	\$ 524
<b>Liabilities:</b>		
Mortgages and other notes payable, net	\$ 28,855	\$ 29,158
Accounts payable and accrued liabilities	\$ 1,489	\$ 490
Other liabilities	\$ 299	\$ 242

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 \$12.8 million as of December 31, 2021. 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, 2021 and 2020, (in thousands):

	<u>As of December 31,</u>	
	<u>2021</u>	<u>2020</u>
<b>Mortgages payable and other notes payable:</b>		
Fixed rate debt <sup>(1)</sup>	\$ 89,766	\$ 337,519
Premium <sup>(2)</sup>	59	101
Loan costs, net	(425)	(935)
Total mortgages and other notes payable, net	89,400	336,685
<b>Credit facilities:</b>		
Revolving Credit Facility <sup>(3)(4)(5)</sup>	88,000	—
Term Loan Facility <sup>(3)(5)</sup>	265,000	265,000
2021 Term Loan Facility <sup>(3)(5)</sup>	150,000	—
Loan costs, net related to Term Loan Facilities	(3,272)	(1,577)
Total credit facilities, net	499,728	263,423
Total indebtedness, net	\$ 589,128	\$ 600,108

**CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES**  
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9. Indebtedness (Continued)

**FOOTNOTES:**

- (1) As of December 31, 2021 and 2020, the Company's mortgages and other notes payable are collateralized by seven and 29 properties, respectively, with total carrying value of approximately \$135.4 million and \$497.4 million, respectively.
- (2) Premium is reflective of the Company recording mortgage note payables assumed at fair value on the respective acquisition dates.
- (3) As of December 31, 2021 and 2020, the Company had entered into interest rate caps with notional amounts of approximately \$355.0 million and \$225.0 million, respectively. Refer to Note 11. "Derivative Financial Instruments" for additional information.
- (4) As of December 31, 2021 and 2020, the Company had undrawn availability under the applicable revolving credit facility of approximately \$14.1 million and \$150.2 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.
- (5) The 30-day LIBOR was approximately 0.10% and 0.14%, respectively, as of December 31, 2021 and 2020.

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.

In September 2021, the Company entered into a new term loan agreement (the "Term Loan Agreement"), which provided for an additional \$150 million senior unsecured term loan facility (the "2021 Term Loan Facility") to complement and become part of the Company's existing Credit Facilities. The 2021 Term Loan Facility has an initial term that is co-terminus with the Credit Facilities, maturing May 15, 2024, subject to one 12-month extension, and bears interest based on 30-day LIBOR plus a spread that varies with the Company's leverage ratio. The 2021 Term Loan Facility is pre-payable at any time in whole or part without fees or penalties, has a borrowing availability calculation that is subject to a similar borrowing base calculation as the Credit Facilities and contains similar affirmative, negative and financial covenants as the covenants in the Credit Facilities. Upon the execution of the Term Loan Agreement, the Company paid fees totaling approximately \$0.9 million to unrelated third parties and a refinancing coordination fee to the Advisor of approximately \$1.5 million. See Note 10. "Related Party Arrangements" for additional information regarding the financing coordination fee.

In October 2021, the Company refinanced secured indebtedness of approximately \$238.0 million, consisting of debt collateralized by 22 properties, in advance of its scheduled maturity of January 2022 using proceeds from the unsecured 2021 Term Loan Facility and available borrowings 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, 2021 (in thousands):

2022	\$	45,684
2023		111,407
2024		435,675
2025		—
2026		—
Thereafter		—
	<u>\$</u>	<u>592,766</u>

**CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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9. Indebtedness (Continued)

The Company had liquidity of approximately \$67.3 million as of December 31, 2021 (consisting of \$53.2 million in cash on hand and \$14.1 million of availability under its Revolving Credit Facility) and was well positioned to manage its near-term debt maturities. The Company has \$45.7 million of scheduled principal payments coming due during the year ending December 31, 2022, which includes \$45.0 million relating to secured debt collateralized by five properties that matures in September 2022. Management has begun exploring several repayment or refinancing options, including using availability from its unsecured Revolving Credit Facility or refinancing the facility with another lending institution as a secured debt facility.

The following table details the Company's mortgages and other notes payable, all of which were fixed rate debt, as of December 31, 2021 and 2020, (in thousands):

<b>Property and Loan Type</b>	<b>Interest Rate at December 31, 2021</b>	<b>Payment Terms</b>	<b>Maturity Date <sup>(1)</sup></b>	<b>December 31,</b>	
				<b>2021</b>	<b>2020</b>
Pacific Northwest Communities; Mortgage Loans	4.30% per annum	Monthly principal and interest payments based on a 25-year amortization schedule	1/5/2022	\$ —	\$ 189,938
Capital Health Communities; Mortgage Loans <sup>(2)</sup>	<sup>(3)</sup>	Monthly principal and interest payments based on a 25-year amortization schedule	1/5/2022	—	55,925
Primrose I Communities; Mortgage Loan <sup>(3)</sup>	4.11% per annum	Monthly principal and interest payments based on a 30-year amortization schedule	9/1/2022	45,019	46,317
Watercrest at Mansfield; Mortgage Loan <sup>(4)</sup>	4.68% per annum	Monthly principal and interest payments based on a total payment of \$143,330	6/1/2023	23,473	24,065
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	11/15/2024	21,274	21,274
<b>Total mortgages and other notes payable, net</b>				<b>\$ 89,766</b>	<b>\$ 337,519</b>

**FOOTNOTES:**

- (1) Represents the initial maturity date (or, as applicable, the maturity date as extended).
- (2) Consisted of a mortgage loan and a supplemental loan. The mortgage loan accrued interest at a fixed rate equal to 4.25% per annum. The supplemental loan accrued interest at a fixed rate equal to 4.3% per annum.
- (3) If prepaid prior to 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.
- (4) The balance for this loan excludes a remaining premium of \$0.1 million related to the mortgage note payable assumed being recorded at fair value on the acquisition date.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
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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, 2021 and 2020 (in millions):

	December 31, 2021		December 31, 2020	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Mortgages and other notes payable, net	\$ 90.4	\$ 89.4	\$ 339.4	\$ 336.7
Credit facilities, net	\$ 503.0	\$ 499.7	\$ 265.0	\$ 263.4

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.

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, 2021 the Company was in compliance with all financial covenants related to its Credit Facilities.



CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
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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 based on 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. In May 2021, the Company extended its advisory agreement with the Advisor through June 2022 and, effective with the renewal, reduced the asset management fee from 1.0% per annum to 0.8% per annum of average invested assets. The Advisor will also receive a financing coordination fee for services rendered with respect to refinancing of any debt obligations of the Company or its subsidiaries equal to 1.0% of the gross amount of the refinancing.

The Company will pay the Advisor, if a substantial amount of services are provided as determined by the Company's independent directors, a disposition fee in an amount equal to (a) 1% of the gross market capitalization of the Company upon the occurrence of a listing on a national securities exchange, or 1% of the gross consideration paid upon the occurrence of a liquidity event as a result of a merger, share exchange or acquisition or similar transaction pursuant to which the stockholders receive cash and/or listed or non-listed securities, or (b) 1% of the gross sales price upon the sale or transfer of one or more assets (including a sale of all the Company's assets). The Company will not pay its Advisor a disposition fee in connection with the sale of investments that are securities. A disposition fee in the form of a 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 to 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.

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10. Related Party Arrangements (Continued)

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, 2021, 2020 and 2019.

*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 stockholders 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, 2021, 2020 and 2019, 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.

**CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES**  
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10. Related Party Arrangements (Continued)

The expenses and fees incurred by and reimbursable to the Company's related parties, including amounts included in income from discontinued operations, for the years ended December 31, 2021, 2020 and 2019, and related amounts unpaid as of December 31, 2021 and 2020 are as follows (in thousands):

	<b>Years Ended</b>			<b>Unpaid amounts as of<sup>(1)</sup></b>	
	<b>December 31,</b>			<b>December 31,</b>	<b>December 31,</b>
	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2021</b>	<b>2020</b>
Reimbursable expenses:					
Operating expenses <sup>(2)</sup>	\$ 2,972	\$ 3,517	\$ 5,066	\$ 214	\$ 275
	<u>2,972</u>	<u>3,517</u>	<u>5,066</u>	<u>214</u>	<u>275</u>
Disposition fee <sup>(3)</sup>	—	143	3,031	—	—
Financing coordination fees <sup>(4)</sup>	1,500	61	5,553	—	—
Asset management fees <sup>(5)</sup>	15,740	18,190	23,281	1,192	1,505
	<u>\$ 20,212</u>	<u>\$ 21,911</u>	<u>\$ 36,931</u>	<u>\$ 1,406</u>	<u>\$ 1,780</u>

**FOOTNOTES:**

- (1) Amounts are recorded as due to related parties in the accompanying consolidated balance sheets.
- (2) Amounts are recorded as general and administrative expenses in the accompanying consolidated statements of operations unless such amounts represent prepaid expenses, which are capitalized in the accompanying consolidated balance sheets.
- (3) Amounts are recorded as a reduction to gain on sale of real estate in the accompanying consolidated statements of operations.
- (4) For the years ended December 31, 2021 and 2020, the Company incurred financing coordination fees of approximately \$1.5 million and \$0.1 million, respectively, all of which were capitalized as loan costs and reflected in mortgages and other notes payable, net in the accompanying consolidated balance sheets. 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.
- (5) Effective May 26, 2021, the asset management fee was reduced from 1.0% per annum to 0.80% per annum of average invested assets. For the years ended December 31, 2021, 2020 and 2019, the Company incurred approximately \$15.7 million, \$18.2 million and \$23.3 million, respectively, in asset management fees payable to the Advisor. No expense support was received for the years ended December 31, 2021, 2020 and 2019. There were no asset management fees capitalized for the years ended December 31, 2021, 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, 2021, 2020 and 2019. As of December 31, 2021, \$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, 2021.

Cash distributions paid on Restricted Stock shares for the years ended December 31, 2021, 2020 and 2019 were \$0.273 million, \$0.273 million and \$3.027 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.

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11. Derivative Financial Instruments

The following summarizes the terms of the Company's, or its equity method investment's, interest rate caps and the corresponding asset as of December 31, 2021 and 2020 (in thousands):

Notional Amount <sup>(1)</sup>	Strike	Trade	Forward	Maturity Date	Fair Value Asset as of December 31,	
					2021	2020
\$ 10,500	3.3%	2/28/2019	3/1/2019	9/1/2021	\$ —	\$ —
\$ 231,000	2.0%	12/12/2019	12/20/2019	12/31/2020	\$ —	\$ —
\$ 225,000	0.8%	8/12/2020	12/31/2020	12/31/2021	\$ —	\$ 2
\$ 130,000	1.0%	10/7/2021	10/7/2021	12/31/2022	\$ 63	\$ —
\$ 225,000	2.0%	12/22/2021	12/31/2021	12/31/2022	\$ 28	\$ —

**FOOTNOTE:**

- (1) 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 interest rate caps fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its interest rate caps 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 interest rate cap positions and has determined that the credit valuation adjustments on the overall valuation adjustments are not significant to the overall valuation of its interest rate caps. As a result, the Company determined that its interest rate cap 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

**Stockholders' Equity:**

*Distributions* — For the years ended December 31, 2021, 2020 and 2019, the Company declared cash distributions of \$35.6 million, \$35.6 million and \$394.9 million, respectively, which included a special cash distribution of \$347.9 million funded in May 2019 with proceeds from the sale of real estate and all of which were paid in cash to stockholders. Refer to Note 16. "Subsequent Events" for additional information.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2021

12. Equity (Continued)

The tax composition of the Company's distributions declared for the years ended December 31, 2021, 2020 and 2019 were as follows:

	Years Ended December 31,		
	2021	2020	2019
Ordinary income	43.82%	21.88%	0.00%
Capital gain	0.00%	0.62%	42.85%
Unrecaptured Sec. 1250 gain	0.00%	11.15%	20.10%
Return of capital	56.18%	66.35%	37.05%

*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, 2021, 2020 and 2019, the Company accrued, as a reversal to capital in excess of par value, the following distributions to holders of promoted interest (in thousands):

	Years Ended December 31,		
	2021	2020	2019
Dogwood Forest of Grayson	\$ —	\$ —	\$ 406
	\$ —	\$ —	\$ 406

*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, 2021, 2020 and 2019 (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,		
	2021	2020	2019		2021	2020	2019
Interest rate swaps	\$ —	\$ —	\$ (846)	Interest expense and loan cost amortization	\$ —	\$ —	\$ 921
Interest rate caps	40	11	(134)	Interest expense and loan cost amortization	(32)	(44)	(361)
Reclassification of interest rate swaps upon derecognition	—	—	(509)	Interest expense and loan cost amortization	—	—	509
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	5	(12)	11	Equity in earnings of unconsolidated entity	(5)	(3)	(11)
Total	\$ 45	\$ 1	\$ (1,213)		\$ (37)	\$ (49)	\$ 793

**CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2021**

13. Income Taxes

For the years ended December 31, 2021, 2020 and 2019, 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, 2021, 2020 and 2019, excluding amounts related to discontinued operations, were as follows (in thousands):

	<b>Years Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Current:</b>			
Federal	\$ (10)	\$ 51	\$ 51
State	(532)	(596)	(580)
Total current expense	(542)	(545)	(529)
<b>Deferred:</b>			
Federal	(3,379)	(552)	(1,562)
State	(253)	(1)	(120)
Total deferred expense	(3,632)	(553)	(1,682)
<b>Income tax expense</b>	<b>\$ (4,174)</b>	<b>\$ (1,098)</b>	<b>\$ (2,211)</b>

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, 2021 and 2020 are as follows:

	<b>2021</b>	<b>2020</b>
Carryforwards of net operating loss	\$ 10,847	\$ 4,068
Minimum tax credit carryforward	—	—
Prepaid rent	985	1,026
Valuation allowance	(11,832)	(1,464)
<b>Deferred tax assets, net</b>	<b>\$ —</b>	<b>\$ 3,630</b>

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

	<b>Years Ended December 31,</b>					
	<b>2021</b>		<b>2020</b>		<b>2019</b>	
Tax (expense) benefit computed at federal statutory rate	\$ 3,923	21.00%	\$ (873)	(21.00)%	\$ (898)	(21.00)%
Impact of REIT election	1,575	8.43%	303	7.28%	(675)	(15.78)%
State income tax expense net of federal benefit	706	3.78%	(160)	(3.84)%	(488)	(11.41)%
Effect of change in valuation allowance	(10,378)	(55.55)%	(368)	(8.86)%	(150)	(3.51)%
<b>Income tax expense</b>	<b>\$ (4,174)</b>	<b>(22.34)%</b>	<b>\$ (1,098)</b>	<b>(26.42)%</b>	<b>\$ (2,211)</b>	<b>(51.70)%</b>

The Company's TRS entities had net operating loss carryforwards for federal and state purposes of approximately \$39.5 million and \$12.4 million as of December 31, 2021 and 2020, 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 \$27.5 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.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2021

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 two 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, 2021.

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, 2021, 2020 and 2019, 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,		
		2021	2020	2019
State of Texas <sup>(1)</sup>	Geographical	21.3%	21.0%	20.5%

**FOOTNOTE:**

<sup>(1)</sup> 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

Effective January 1, 2022, the Company acquired the remaining 25% interest in the Windsor Manor Joint Venture from the Company’s joint venture partner for approximately \$3.3 million and currently owns a 100% interest in the Windsor Manor Joint Venture.

In March 2022, the Company entered into a purchase and sale agreement for the Hurst Specialty Hospital with an unrelated third party for a gross sales price of \$8.5 million and does not anticipate recording any gain or loss on the sale of the property for financial reporting purposes.

On March 21, 2022, the Board approved \$0.0256 per share as the first quarter 2022 distribution (the “First Quarter Distribution”).

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS  
YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019 (in thousands)

<b>Year</b>	<b>Description</b>	<b>Balance at Beginning of Year</b>	<b>Charged to Costs and Expenses</b>	<b>Charged to Other Accounts</b>	<b>Balance at End of Year</b>
2019	Deferred tax asset valuation allowance	\$ (1,916)	\$ —	\$ 808	\$ (1,108)
	Allowance for doubtful accounts	(3,839)	—	1,912	(1,927)
		<u>\$ (5,755)</u>	<u>\$ —</u>	<u>\$ 2,720</u>	<u>\$ (3,035)</u>
2020	Deferred tax asset valuation allowance	\$ (1,108)	\$ —	\$ (356)	\$ (1,464)
	Allowance for doubtful accounts	(1,927)	(2,252)	1,156	(3,023)
		<u>\$ (3,035)</u>	<u>\$ (2,252)</u>	<u>\$ 800</u>	<u>\$ (4,487)</u>
2021	Deferred tax asset valuation allowance	\$ (1,464)	\$ (3,632)	\$ (6,736)	\$ (11,832)
	Allowance for doubtful account	(3,023)	(1,278)	1,161	(3,140)
		<u>\$ (4,487)</u>	<u>\$ (4,910)</u>	<u>\$ (5,575)</u>	<u>\$ (14,972)</u>



**CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES**  
**SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION**  
**AS OF DECEMBER 31, 2021 (in thousands)**

Property/Location	Encumbrances	Initial Costs			Costs Capitalized Subsequent to Acquisition			Gross Amounts at which Carried at Close of Period <sup>(2)</sup>				Accumulated Depreciation	Date of Construction	Date Acquired	Life on which depreciation in latest income statement is computed	
		Land & Land Improvements	Building Improvements	Building	Land & Land Improvements	Building Improvements	Construction in Process	Land & Land Improvements	Building Improvements	Construction in Process	Total					
Primrose Retirement Community of Casper																
Casper, Wyoming	\$ 10,406	\$ 1,910	\$ 16,310	\$ 30	\$ 296	\$ —	\$ 1,940	\$ 16,606	\$ —	\$ 18,546	\$ (4,362)	2004	2/16/2012	(1)		
Primrose Retirement Community of Grand Island																
Grand Island, Nebraska	7,341	719	12,140	82	—	—	801	12,140	—	12,941	(3,313)	2005	2/16/2012	(1)		
Primrose Retirement Community of Mansfield																
Mansfield, Ohio	9,988	650	16,720	229	71	—	879	16,791	—	17,670	(4,608)	2007	2/16/2012	(1)		
Primrose Retirement Community of Marion																
Marion, Ohio	8,285	889	16,305	13	7	—	902	16,312	—	17,214	(4,376)	2006	2/16/2012	(1)		
Sweetwater Retirement Community Billings, Montana	8,998	1,578	14,205	19	30	—	1,597	14,235	—	15,832	(3,719)	2006	2/16/2012	(1)		
HarborChase of Villages Crossing Lady Lake, Florida ("The Villages")	—	2,165	—	996	15,541	—	3,161	15,541	—	18,702	(3,382)	2013	8/29/2012	(1)		
Primrose Retirement Community Cottages																
Aberdeen, South Dakota	—	311	3,794	—	—	—	311	3,794	—	4,105	(947)	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	(2,855)	2008	12/19/2012	(1)		
Primrose Retirement Community of Decatur																
Decatur, Illinois	—	513	16,706	—	154	—	513	16,860	—	17,373	(4,141)	2009	12/19/2012	(1)		
Primrose Retirement Community of Lima																
Lima, Ohio	—	944	17,115	8	15	—	952	17,130	—	18,082	(4,195)	2006	12/19/2012	(1)		
Primrose Retirement Community of Zanesville																
Zanesville, Ohio	—	1,184	17,292	—	67	—	1,184	17,359	—	18,543	(4,262)	2008	12/19/2012	(1)		
Capital Health of Symphony Manor Baltimore, Maryland	—	2,319	19,444	—	284	—	2,319	19,728	—	22,047	(4,741)	2011	12/21/2012	(1)		
Curry House Assisted Living & Memory Care																
Cadillac, Michigan	—	995	11,072	15	(106)	—	1,010	10,966	—	11,976	(2,684)	1966	12/21/2012	(1)		
Tranquillity at Fredericktowne Frederick, Maryland	—	808	14,291	25	6,398	—	833	20,689	—	21,522	(5,072)	2000	12/21/2012	(1)		
Brookridge Heights Assisted Living & Memory Care																
Marquette, Michigan	—	595	11,339	(17)	4,784	—	578	16,123	—	16,701	(4,147)	1998	12/21/2012	(1)		

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION (CONTINUED)  
AS OF DECEMBER 31, 2021 (in thousands)

Property/Location	Encumbrances	Initial Costs		Costs Capitalized Subsequent to Acquisition			Gross Amounts at which Carried at Close of Period <sup>(2)</sup>			Accumulated Depreciation	Date of Construction	Date Acquired	Life on which depreciation in latest income statement is computed	
		Land & Land Improvements	Building Improvements	Land & Land Improvements	Building Improvements	Construction in Process	Land & Land Improvements	Building Improvements	Construction in Process					Total
Woodholme Gardens Assisted Living & Memory Care Pikesville, Maryland ("Baltimore")	\$ —	\$ 1,603	\$ 13,472	\$ 54	\$ 43	\$ —	\$ 1,657	\$ 13,515	\$ —	\$ (3,302)	2010	12/21/2012	(1)	
HarborChase of Jasper Jasper, Alabama	—	355	6,358	23	56	—	378	6,414	—	6,792	(1,436)	1998	7/31/2013	(1)
Raider Ranch Lubbock, Texas	—	4,992	48,818	580	12,901	—	5,572	61,719	—	67,291	(12,918)	2009	8/29/2013	(1)
Town Village Oklahoma City, Oklahoma	—	1,020	19,847	103	1,655	—	1,123	21,502	—	22,625	(4,831)	2004	8/29/2013	(1)
Prestige Senior Living Beaverton Hills Beaverton, Oregon	—	1,387	10,324	13	80	—	1,400	10,404	—	11,804	(2,250)	2000	12/2/2013	(1)
Prestige Senior Living High Desert Bend, Oregon	—	835	11,252	17	56	—	852	11,308	—	12,160	(2,560)	2003	12/2/2013	(1)
MorningStar of Billings Billings, Montana	—	4,067	41,373	54	533	—	4,121	41,906	—	46,027	(9,564)	2009	12/2/2013	(1)
MorningStar of Boise Boise, Idaho	—	1,663	35,752	276	251	—	1,939	36,003	—	37,942	(7,794)	2007	12/2/2013	(1)
Prestige Senior Living Huntington Terrace Gresham, Oregon ("Portland")	—	1,236	12,083	2	127	—	1,238	12,210	—	13,448	(2,689)	2000	12/2/2013	(1)
MorningStar of Idaho Falls Idaho Falls, Idaho	—	2,006	40,397	64	413	—	2,070	40,810	—	42,880	(8,991)	2009	12/2/2013	(1)
Prestige Senior Living Arbor Place Medford, Oregon	—	355	14,083	11	361	—	366	14,444	—	14,810	(3,050)	2003	12/2/2013	(1)
Prestige Senior Living Orchard Hills Salem, Oregon	—	545	15,544	10	199	—	555	15,743	—	16,298	(3,368)	2002	12/2/2013	(1)
Prestige Senior Living Southern Hills Salem, Oregon	—	653	10,753	43	26	—	696	10,779	—	11,475	(2,364)	2001	12/2/2013	(1)
MorningStar of Sparks Sparks, Nevada	—	3,986	47,968	16	259	—	4,002	48,227	—	52,229	(10,700)	2009	12/2/2013	(1)
Prestige Senior Living Five Rivers Tillamook, Oregon	—	1,298	14,064	18	323	—	1,316	14,387	—	15,703	(3,286)	2002	12/2/2013	(1)

**CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES**  
**SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION (CONTINUED)**  
**AS OF DECEMBER 31, 2021 (in thousands)**

Property/Location	Initial Costs		Costs Capitalized Subsequent to Acquisition				Gross Amounts at which Carried at Close of Period <sup>(2)</sup>				Accumulated Depreciation	Date of Construction	Date Acquired	Life on which depreciation in latest income statement is computed
	Encumbrances	Land & Land Improvements	Building and Improvements	Land & Land Improvements	Building and Improvements	Construction in Process	Land & Land Improvements	Building and Improvements	Construction in Process	Total				
Prestige Senior Living Riverwood Tualatin, Oregon ("Portland")	\$ —	\$ 1,028	\$ 7,429	12	\$ 87	\$ —	\$ 1,040	\$ 7,516	\$ —	\$ 8,556	\$ (1,702)	1999	12/2/2013	(1)
Prestige Senior Living Auburn Meadows	—	2,537	17,261	—	688	—	2,537	17,949	—	20,486	(3,807)	2003/2010	2/3/2014	(1)
Prestige Senior Living Bridgewood Vancouver, Washington ("Portland")	—	1,603	18,172	10	49	—	1,613	18,221	—	19,834	(3,912)	2001	2/3/2014	(1)
Prestige Senior Living Monticello Park	—	1,981	23,056	1	46	—	1,982	23,102	—	25,084	(4,894)	2001/2010	2/3/2014	(1)
Prestige Senior Living Rosemont Yelm, Washington	—	668	14,564	—	103	—	668	14,667	—	15,335	(3,066)	2004	2/3/2014	(1)
Wellmore of Tega Cay Tega Cay, South Carolina ("Charlotte")	—	2,445	—	2,743	23,452	—	5,188	23,452	—	28,640	(5,097)	2015	2/7/2014	(1)
Isle at Cedar Ridge Cedar Park, Texas ("Austin")	—	1,525	16,277	—	658	—	1,525	16,935	—	18,460	(3,657)	2011	2/28/2014	(1)
Prestige Senior Living West Hills Corvallis, Oregon	—	842	12,603	11	286	—	853	12,889	—	13,742	(2,761)	2002	3/3/2014	(1)
HarborChase of Plainfield Plainfield, Illinois	—	1,596	21,832	9	351	—	1,605	22,183	—	23,788	(4,598)	2010	3/28/2014	(1)
Legacy Ranch Alzheimer's Special Care Center Midland, Texas	—	917	9,982	34	15	—	951	9,997	—	10,948	(2,142)	2012	3/28/2014	(1)
The Springs Alzheimer's Special Care Center San Angelo, Texas	—	595	9,658	9	195	—	604	9,853	—	10,457	(2,088)	2012	3/28/2014	(1)
Isle at Watercrest - Bryan Bryan, Texas	—	3,223	40,581	40	1,976	—	3,263	42,557	—	45,820	(9,070)	2011	4/21/2014	(1)
Isle at Watercrest - Mansfield Mansfield, Texas ("Dallas/Fort Worth")	—	997	24,635	—	256	—	997	24,891	—	25,888	(5,038)	2011	5/5/2014	(1)
Watercrest at Katy Katy, Texas ("Houston")	21,274	4,000	—	127	32,376	—	4,127	32,376	—	36,503	(4,676)	2016	6/27/2014	(1)
Watercrest at Mansfield Mansfield, Texas ("Dallas/Fort Worth")	23,474	2,191	42,740	24	985	—	2,215	43,725	—	45,940	(8,791)	2010	6/30/2014	(1)

**CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES**  
**SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION (CONTINUED)**  
**AS OF DECEMBER 31, 2021 (in thousands)**

Property/Location	Encumbrances	Initial Costs		Costs Capitalized Subsequent to Acquisition			Gross Amounts at which Carried at Close of Period <sup>(2)</sup>				Accumulated Depreciation	Date of Construction	Date Acquired	Life on which depreciation in latest income statement is computed
		Land & Land Improvements	Building and Improvements	Land & Land Improvements	Building and Improvements	Construction in Process	Land & Land Improvements	Building and Improvements	Construction in Process	Total				
HarborChase of Shorewood Shorewood, Wisconsin ("Milwaukee")\$	—	\$ 2,200	—	\$ 304	19,868	—	2,504	19,868	—	\$22,372	(3,218)	2015	7/8/2014	(1)
Hurst Specialty Hospital Hurst, Texas ("Dallas/Fort Worth")	—	2,082	10,513	—	—	—	2,082	10,513	—	12,595	(4,298)	2004/2012	8/15/2014	(1)
Fairfield Village of Layton Layton, Utah ("Salt Lake City")	—	5,217	54,167	85	219	—	5,302	54,386	—	59,688	(10,943)	2010	11/20/2014	(1)
Fieldstone Memory Care Yakima, Washington	—	1,297	9,965	—	6	—	1,297	9,971	—	11,268	(1,909)	2014	3/31/2015	(1)
Primrose Retirement Center of Anderson Anderson, Indiana ("Muncie")	—	1,342	19,083	—	33	—	1,342	19,116	—	20,458	(3,554)	2008	5/29/2015	(1)
Primrose Retirement Center of Lancaster Lancaster, Ohio ("Columbus")	—	2,840	21,884	51	—	—	2,891	21,884	—	24,775	(4,483)	2007	5/29/2015	(1)
Primrose Retirement Center of Wausau Wausau, Wisconsin ("Green Bay")	—	1,089	18,653	—	—	—	1,089	18,653	—	19,742	(3,330)	2008	5/29/2015	(1)
Superior Residences of Panama City Panama City Beach, Florida	—	2,099	19,367	14	37	—	2,113	19,404	—	21,517	(3,552)	2015	7/15/2015	(1)
The Hampton at Meadows Place Fort Bend, Texas ("Houston")	—	715	24,281	11	330	—	726	24,611	—	25,337	(4,132)	2007/2013/2014	7/31/2015	(1)
The Pavilion at Great Hills Austin, Texas	—	1,783	29,318	53	270	—	1,836	29,588	—	31,424	(5,015)	2010	7/31/2015	(1)
The Beacon at Gulf Breeze Gulf Breeze, Florida ("Pensacola")	—	824	24,106	89	254	—	913	24,360	—	25,273	(4,257)	2008	7/31/2015	(1)
Parc at Piedmont Marietta, Georgia ("Atlanta")	—	3,529	43,080	31	881	—	3,560	43,961	—	47,521	(7,631)	2001/2011	7/31/2015	(1)
Parc at Duluth Duluth, Georgia ("Atlanta")	—	5,951	42,458	70	2,365	—	6,021	44,823	—	50,844	(7,476)	2003/2012	7/31/2015	(1)
Waterstone on Augusta Greenville, South Carolina	—	2,253	—	2,116	20,849	—	4,369	20,849	—	25,218	(3,198)	2017	8/31/2015	(1)
Wellmore of Lexington Lexington, South Carolina ("Columbia")	—	2,300	—	3,186	43,097	—	5,486	43,097	—	48,583	(5,920)	2017	9/14/2015	(1)

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION (CONTINUED)  
AS OF DECEMBER 31, 2021 (in thousands)

Property/Location	Encumbrances	Costs Capitalized Subsequent to Acquisition						Gross Amounts at which Carried at Close of Period <sup>(2)</sup>			Accumulated Depreciation	Date of Construction	Date Acquired	Life on which depreciation in latest income statement is computed
		Land & Land Improvements	Building and Improvements	Land & Land Improvements	Building and Improvements	Construction in Process	Land & Land Improvements	Building and Improvements	Construction in Process	Total				
Palmilla Senior Living Albuquerque, New Mexico	\$ —	\$ 4,701	\$ 38,321	\$ 10	\$ 195	\$ —	\$ 4,711	\$ 38,516	\$ —	\$ 43,227	\$ (6,583)	2013	9/30/2015	(1)
Cedar Lake Assisted Living and Memory Care Lake Zurich, Illinois ("Chicago")	—	2,412	25,126	38	71	—	2,450	25,197	—	27,647	(4,304)	2014	9/30/2015	(1)
Fieldstone at Pear Orchard Yakima, Washington	—	1,035	—	102	13,506	—	1,137	13,506	—	14,643	(1,793)	2016	10/12/2015	(1)
The Shores of Lake Phalen Maplewood, Minnesota ("St. Paul")	—	2,724	25,093	10	105	—	2,734	25,198	—	27,932	(4,219)	2012	11/10/2015	(1)
Dogwood Forest of Grayson Grayson, Georgia	—	1,788	—	112	22,072	—	1,900	22,072	—	23,972	(2,611)	2017	11/24/2015	(1)
Park Place Senior Living at WingHaven O'Fallon, Missouri ("St. Louis")	—	1,283	48,221	142	863	—	1,425	49,084	—	50,509	(7,884)	2006/2014	12/17/2015	(1)
Hearthside Senior Living of Collierville Collierville, Tennessee ("Memphis")	—	1,756	13,379	57	29	—	1,813	13,408	—	15,221	(2,251)	2014	12/29/2015	(1)
Albuquerque, New Mexico – Unimproved Land Albuquerque, New Mexico	—	1,056	—	—	—	—	1,056	—	—	1,056	—	—	9/7/2017	(1)
	<u>\$ 89,766</u>	<u>\$ 121,149</u>	<u>\$ 1,265,743</u>	<u>\$ 12,190</u>	<u>\$ 231,400</u>	<u>\$ —</u>	<u>\$ 133,339</u>	<u>\$ 1,497,143</u>	<u>\$ —</u>	<u>\$ 1,630,482</u>	<u>\$ (303,767)</u>			

Transactions in real estate and accumulated depreciation as of December 31, 2021 are as follows:

Balance December 31, 2018	\$ 2,713,680	Balance December 31, 2018	\$ (279,645)
2019 Improvements	4,039	2019 Depreciation	(41,737)
2019 Impairments	(1,004,892)	2019 Accumulated depreciation on dispositions	94,853
Balance December 31, 2019	1,712,827	Balance December 31, 2019	(226,529)
2020 Improvements	3,020	2020 Depreciation	(42,430)
2020 Dispositions	(75,313)	2020 Accumulated depreciation on dispositions	6,565
Balance December 31, 2020	1,640,534	Balance December 31, 2020	(262,394)
2021 Improvements	6,385	2021 Depreciation	(42,215)
2021 Dispositions	(6,764)	2021 Accumulated depreciation on dispositions	842
2021 Impairments	(9,673)	Balance December 31, 2021	<u>\$ (303,767)</u>
Balance December 31, 2021	<u>\$ 1,630,482</u>		

**FOOTNOTES:**

<sup>(1)</sup> Buildings and building improvements are depreciated over 39 and 15 years, respectively. Tenant improvements are depreciated over the terms of their respective leases.

<sup>(2)</sup> 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, 2021, 2020 AND 2019 (in thousands)

	<b>2021</b>	<b>2020</b>	<b>2019</b>
Balance at beginning of year	\$ 448	\$ 482	\$ 1,688
Additions during period:			
New mortgage loans and additional advances	—	—	531
Accrued and deferred interest	39	6	9
Deductions during period:			
Collection of principal	(35)	(40)	(1,746)
Balance at end of year	<u>\$ 452</u>	<u>\$ 448</u>	<u>\$ 482</u>

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

There were no changes in or disagreements with our independent registered accountants during the period ended December 31, 2021.

**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, 2021 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.

**Item 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

None.

## PART III

### Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

#### Directors and Executive Officers

Our directors and executive officers as of March 21, 2022 were as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
James M. Seneff, Jr.	75	Director and Chairman of the Board
Stephen H. Mauldin	53	Director, Vice Chairman of the Board, President and Chief Executive Officer
James Chandler Martin	71	Independent Director and Audit Committee Financial Expert
Michael P. Haggerty	69	Independent Director
J. Douglas Holladay	75	Independent Director
Ixchell C. Duarte	55	Chief Financial Officer, Senior Vice President and Treasurer (Principal Financial and Principal Accounting Officer)
John F. Starr	47	Chief Operating Officer and Senior Vice President
Tracey B. Bracco	42	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)); Truststreet Properties, Inc. (“Truststreet”), 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 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 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. Mr. Holladay advises several startup companies that are not competitive with CNL. He also is CEO of PathNorth, Inc., which helps leaders broaden their perspective on success. He is an author of *Rethinking Success*, published by Harper Collins. 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 chief financial officer and treasurer of CNL Healthcare Properties II, Inc., a public, non-traded REIT from February 2018 and served as senior vice president from June 2016 through its dissolution in March 2020, and previously served as chief accounting officer from January 2016 to June 2017. Ms. Duarte has served as senior vice president and chief accounting officer of its advisor, CHP II Advisors, LLC, since July 2015. 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. 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 (NYSE-listed), 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 and for the Orlando, FL audit practice of Coopers & Lybrand. She received a B.S. in accounting from the Wharton School of the University of Pennsylvania 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, until its dissolution in March 2020. 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, from August 23, 2016 and as its vice president since January 2016, until its dissolution in March 2020. 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 eight (8) meetings in 2021. All directors attended 100% of the meetings of the Board. Although the Company does not have a policy on director attendance at the annual meetings of stockholders, directors are encouraged to do so.

## Committees of the Board

### Audit Committee

The Company has a standing Audit Committee, the members of which are selected by the Board each year. The Audit Committee, which is composed entirely of Independent Directors, is chaired by an Independent Director. The current membership of the Audit Committee and other descriptive information is summarized below.

<u>Independent Directors</u>	<u>Position</u>
J. Chandler Martin	C, E
Michael P. Haggerty	M
J. Douglas Holladay	M
<b>Number of 2021 Meetings</b>	<b>4</b>

### 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](http://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, 2021, 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, 2021. 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 2021 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 2021.

Name	Fees Earned or Paid in Cash	Total Compensation
James M. Seneff, Jr. (Chairman)	\$ —	\$ —
Stephen H. Mauldin	—	—
J. Chandler Martin	111,500	111,500
Michael P. Haggerty	96,500	96,500
J. Douglas Holladay	94,500	94,500

## 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, 14<sup>th</sup> 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 21, 2022.

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 <sup>(1)</sup>	1,370,820	0.8%
Stephen H. Mauldin	6,133	0.0% <sup>(2)</sup>
John F. Starr	406	0.0% <sup>(2)</sup>
Ixchell C. Duarte	—	0.0%
Tracey B. Bracco	—	0.0%
All directors and executive officers as a group (8 persons)	<u>1,377,359</u>	<u>0.8%</u>

### FOOTNOTES:



- (1) Represents shares held of record by the Advisor.
- (2) The number of shares of our common stock beneficially owned by any director or executive officer did not exceed 0.1% of the total shares outstanding as of March 21, 2022.

**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, 2021 or March 21, 2022.

### 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 2021, the Company’s Total Operating Expenses incurred represented approximately 1.4% of Average Invested Assets, as each term is defined in the Company’s Charter. During 2021, the Company’s Total Operating Expenses incurred represented approximately 64.7% 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, 2021 and 2020.

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, 2021 and 2020, 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,	
	2021	2020
Audit fees	\$ 755,040	\$ 858,780
Audit-related fees	—	—
Tax fees	373,834	539,724
All other fees	—	—
Total Fees	\$ 1,128,874	\$ 1,398,504

*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, 2021 and 2020.

*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, 2021 and 2020.

## 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, 2021 and 2020

Consolidated Statements of Operations for the years ended December 31, 2021, 2020 and 2019

Consolidated Statement of Comprehensive Income (Loss) for the years ended December 31, 2021, 2020, 2019

Consolidated Statements of Stockholders' Equity and Redeemable Noncontrolling Interest for the years ended December 31, 2021, 2020 and 2019

Consolidated Statements of Cash Flows for the years ended December 31, 2021, 2020 and 2019

Notes to Consolidated Financial Statements

(2) Index to Financial Statement Schedules:

Schedule II – Valuation and Qualifying Accounts for the years ended December 31, 2021, 2020 and 2019

Schedule III – Real Estate and Accumulated Depreciation as of December 31, 2021

Schedule IV – Mortgage Loans on Real Estate for the years ended December 31, 2021, 2020 and 2019

(3) Index to Exhibits (refer below).

### Item 16. FORM 10-K SUMMARY

None.

## EXHIBIT INDEX

### Exhibits

CNL Healthcare Properties, Inc. was formerly known as CNL Healthcare Trust, Inc., CNL Properties Trust, Inc., and CNL Diversified Lifestyle Properties, Inc.

<b>Exhibit No.</b>	<b>Description</b>
1.1	<a href="#"><u>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.)</u></a>
1.2	<a href="#"><u>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.)</u></a>
3.1	<a href="#"><u>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.)</u></a>
3.2	<a href="#"><u>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.)</u></a>
4.1	<a href="#"><u>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.)</u></a>
4.2	<a href="#"><u>Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934. (Filed herewith.)</u></a>
10.1	<a href="#"><u>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.)</u></a>
10.2	<a href="#"><u>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.)</u></a>
10.2.1	<a href="#"><u>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.)</u></a>
10.2.2	<a href="#"><u>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.)</u></a>
10.2.3	<a href="#"><u>Third Amendment to Advisory Agreement dated May 26, 2021, 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 May 27, 2021 and incorporated herein by reference.)</u></a>

- 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 \(Previously filed as Exhibit 106.3 to the Annual Report on Form 10-K filed March 21, 2019 and incorporated herein by reference.\)](#)
- 10.64 [Schedule of Omitted Documents \(Filed herewith.\)](#)

- 10.65 [Term Loan Agreement by and among CHP Partners, LP, KeyBank National Association and certain other Lenders dated Sept. 24, 2021 \(previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed Sept. 28, 2021 and incorporated herein by this reference\).](#)
- 10.66 [Term Note made by CHP Partners, LP in favor of KeyBank National Association dated Sept. 24, 2021 \(previously filed as Exhibit 10.2 to the Current Report on Form 8-K filed Sept. 28, 2021 and incorporated herein by this reference\).](#)
- 10.67 [Guaranty by and among the Guarantors in favor of the Lenders referred to in the Term Loan Agreement dated Sept. 24, 2021 \(previously filed as Exhibit 10.3 to the Current Report on Form 8-K filed Sept. 28, 2021 and incorporated herein by this reference\).](#)
- 10.68 [Schedule of Omitted Documents \(previously filed as Exhibit 10.4 to the Current Report on Form 8-K filed Sept. 28, 2021 and incorporated herein by this reference\).](#)
- 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. Quarterly Report on Form 10-K for the years ended December 31, 2021, formatted in iXBRL (Inline 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.
- 104 Cover Page Interactive Data File included as Exhibit 101 (embedded within the Inline XBRL document)



## 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 23rd day of March 2022.

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 and Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ James M. Seneff, Jr.</u> JAMES M. SENEFF, JR.	Chairman of the Board	March 23, 2022
<u>/s/ Michael P. Haggerty</u> MICHAEL P. HAGGERTY	Independent Director	March 23, 2022
<u>/s/ J. Douglas Holladay</u> J. DOUGLAS HOLLADAY	Independent Director	March 23, 2022
<u>/s/ J. Chandler Martin</u> J. CHANDLER MARTIN	Independent Director	March 23, 2022
<u>/s/ Stephen H. Mauldin</u> STEPHEN H. MAULDIN	Vice Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)	March 23, 2022
<u>/s/ Ixchell C. Duarte</u> IXCHELL C. DUARTE	Chief Financial Officer, Senior Vice President and Treasurer (Principal Financial Officer and Principal Accounting Officer)	March 23, 2022

## REPORT OF INDEPENDENT DIRECTORS

As Independent Directors of CNL Healthcare Properties, Inc. (the “**Company**”), in 2021, we continued our work with management and KeyBanc Capital Markets (“**KeyBanc**”), the Company’s independent financial advisor engaged by the Special Committee, to assist in the exploration and analysis of strategic alternatives 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 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 stockholders and continues to review any potential conflicts between the potential interests of the Advisor, Sponsor or their respective affiliates and the interests of the Company and its stockholders which may arise as a result of possible strategic opportunities.

The Company sold 69 properties between April 2019 and January 2021. As of December 31, 2021, our investment portfolio consisted of interests in 73 properties, comprising of 71 senior housing communities, one acute care hospital and one vacant land parcel. In 2021, COVID-19 continued to present considerable risks for Company’s seniors housing portfolio due to average age and healthcare profile of its residents, among other things including operating and labor and expenses challenges.

*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 2021, 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 2021, 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 2022, the Board unanimously approved \$7.37 as the estimated NAV per share of the Company's common stock as of December 31, 2021 (the "**2021 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.

#### Annual Report Disclosures Required by Charter

*Total Operating Expenses.* In accordance with the Statement of Policy Regarding Real Estate Investment Trusts published by the North American Securities Administrators Association, also known as the "NASAA REIT Guidelines", the Company's charter requires that we report to our

stockholders annually the Company's "total operating expenses" stated as a percentage of the Company's "average invested assets" and as a percentage of the Company's "net income" (each as defined in the charter). For the year ended December 31, 2021, our total operating expenses stated as a percentage of average invested assets was approximately 1.4% and the ratio of our total operating expenses to net income was approximately 64.7%.

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, 2021.



## **Board of Directors**

**James M. Seneff, Jr.**  
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](http://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](http://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](http://cnlhealthcareproperties.com/gopaperless).

## Properties Featured on Front Cover

Clockwise from top:

The Hampton at Meadows Place, *Houston, Texas*

Watercrest at Katy, *Katy, Texas*

Morningstar of Billings, *Billings, Montana*

HarborChase of Plainfield, *Plainfield, Illinois*



**CNL Healthcare Properties**