

# Premium Content: Healthcare Nontraded REITs

## Nontraded REIT Industry Review: Second Quarter 2015



### NorthStar Healthcare Income, Inc.

NorthStar Healthcare Income, Inc. was formed to acquire, originate and asset manage a diversified portfolio of equity, debt and securities investments in healthcare real estate, directly or through joint ventures, with a focus on the mid-acuity senior housing sector, predominantly in the United States, which the Company defines as assisted living, memory care, skilled nursing, and independent living facilities, that have an emphasis on private pay patients although many of these facilities may also rely on public pay patients. The Company also invests in equity and debt investments in other healthcare property types, including medical office buildings, continuing care retirement communities, hospitals and rehabilitation facilities.

The Company successfully completed its initial offering on February 2, 2015 by raising \$1.1 billion. The Company began raising capital from a follow-on offering February, 2015. The follow-on offering is expected to end during the fourth quarter of 2015. From inception through August 11, 2015, the Company raised total gross proceeds of \$1.3 billion.

As of June 30, 2015, the Company conducts its business through four segments: Real Estate Equity focused on equity investments directly or through joint ventures; Real Estate Debt, focusing on originating, acquiring and asset managing healthcare related debt investments; Healthcare Related Securities, primarily commercial mortgage-backed securities secured by healthcare properties; Corporate that includes corporate level asset management and other fees.

The REIT is in the Stabilizing LifeStage of open REITs that is marked by a distinct formation of the REIT's investment personality. Metrics gain further stability in this stage.

#### Key Highlights

- On June 1, 2015, completed the acquisition of a \$639.3 million continuing care retirement communities portfolio.
- On July 1, 2015, completed the acquisition, via a 36.7% joint venture interest, of Extencicare International, including 142 skilled nursing and six assisted living facilities located across 12 states. The Company invested approximately \$55 million in cash and originated a \$75 million mezzanine loan.

#### Capital Stack Review

- Debt Ratio – The Company's debt to total assets ratio increased to 35.3% as of 2Q 2015 compared to 8.3% in 4Q 2014.
- Debt Maturity – Less than 1% of the Company's debt is due to mature in 2015 or 2016. 91% of principal is due in 2020 or later.
- Debt Breakdown – 13% of the Company's debt is at variable rates with an average weighted interest rate for all debt of 3.90%.
- Loan Activity – During the six months ended June 30, 2015, the Company received proceeds from notes payable of \$503.8 million.
- Cash on Hand – 13.4% cash to total assets ratio is down from the 29.1% ratio reported in 4Q 2014.

#### Metrics

- Distribution – The Company declared and paid a cash distribution of \$0.675 annualized, or 6.75% based upon share price of \$10.00.
- Distribution Source – All distributions were funded by proceeds from the offering for the six months ended June 30, 2015.
- MFFO Payout Ratio – The YTD payout ratio was 271% and 256% for the 2nd quarter, 2015.
- Fee Waivers and Deferrals – None reported.
- Interest Coverage Ratio – The Company's interest coverage ratio was not meaningful for year-to-date 2Q 2015 because Adjusted EBITDA was negative.
- Impairments – None.

#### Real Estate Portfolio

- Owned 29 operating properties, and four unconsolidated joint venture investments that are accounted for under the equity method. The Company also had four debt investments with a carrying value of \$146 million.
- Acquisitions – During the six months ended June 30, 2015, acquired 16 properties for a total of \$652.2 million.
- Dispositions – None in the last 12 months.
- Occupancy – Not reported.
- Geographic Diversification – Real estate equity was diversified with 17.6% in the Northeast, 24.0% in the Midwest, 16.5% in the Southeast, 14.1% in the West, 12.9% in the Southwest, and 7.3% in the Northwest.

#### Cash Flow Analysis

- Operating Cash Flow – Negative \$5.14 million for the six months ended June 30, 2015.

- Net Cash Flow – Totaled negative \$47.7 million over last six months, with investing activity cash flows of \$(762.8) million and financing cash flows of \$720.3 million.
- Outlook – Revenues increased to \$32.8 million for the six months ended June 30, 2015 compared to \$10.3 million for the year earlier period. MFFO increased to \$7.6 million from \$5.7 million in 1Q 2015. Look for MFFO payout ratios to decline in coming quarters as the REIT's portfolio is stabilized.

#### Additional nontraded REITs currently managed by NorthStar

- NorthStar Real Estate Income Trust, Inc. – Formed in 2009 and investing in operating hotels and real estate debt; \$2.05 billion in assets as of 2Q 2015.
- NorthStar Real Estate Income II – Formed in 2013 and investing in real estate debt and net lease properties; \$1.12 billion in assets as of 2Q 2015.

#### Nontraded REITs managed by NorthStar that have completed full-cycle events:

- Acquired Griffin-American Healthcare REIT II in December, 2014 for shares in NorthStar (NYSE: "NRF")CNL Retirement Properties (2006, acquired by Health Care Property Investors).

