



CNL *Healthcare Properties*

**2023** | ANNUAL REPORT

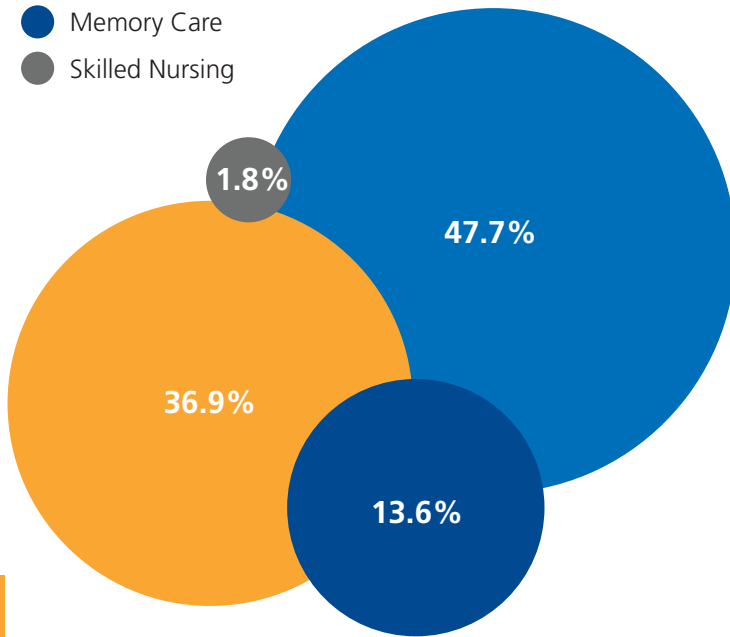


*Built on Experience*<sup>®</sup>



## Seniors Housing Portfolio Composition (by Units)

- Assisted Living
- Independent Living
- Memory Care
- Skilled Nursing

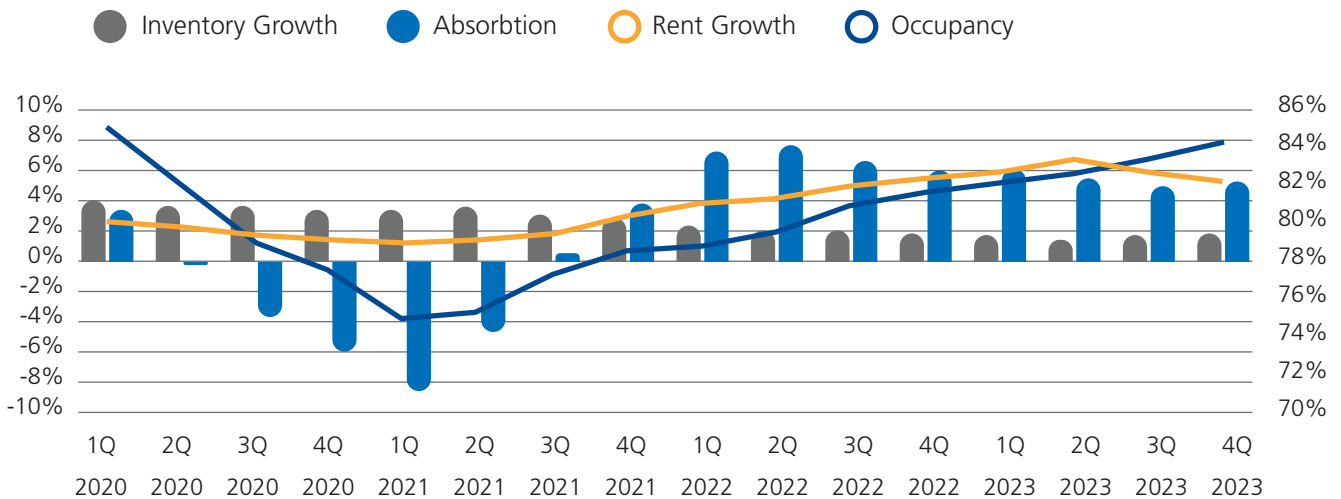


Data as of Dec. 31, 2023

## Top 10 State Diversification (by investment basis)

Texas	19.8%
Oregon	7.4%
Georgia	7.3%
South Carolina	6.8%
Ohio	5.6%
Washington	5.0%
Idaho	4.8%
Florida	4.3%
Illinois	4.3%
Utah	3.9%

## Seniors Housing Supply, Absorption, Occupancy & Rent Growth Trends



Source: NIC MAP® Data Service. Use of NIC MAP® data is subject to the NIC MAP® Data Attribution Requirements (<https://map.nic.org/#/dataAttributionStandalone>). © 2024 National Investment Center for Seniors Housing & Care, Inc. (NIC). All rights reserved. Data believed to be accurate but not guaranteed; subject to future revision. This report is part of the NIC MAP® Data Service (NIC MAP).

## To Our Shareholders

In 2023, we intently focused on rebuilding our unit occupancy levels, cash flows and improving property operations as we continued our rebound from the COVID-19 pandemic. Beyond our progress in these fundamentally important areas, we also successfully negotiated and executed the early refinancing of our \$600 million corporate credit facilities. This strategically important accomplishment late in the year supports our ongoing and strong financial health and maintains our already low, conservative aggregate debt-to-asset ratio of under 31%.

We were pleased to complete our refinancing initiative almost six months ahead of our May 2024 maturity date, marking a meaningful achievement amidst the persistent backdrop of a rising cost of capital and an especially challenging debt capital markets environment. Our newly minted corporate credit facilities, provided through a strong and diverse syndicate of 11 banks, including two bank relationships that are new to us, do not mature again until May 2026. Our new credit facilities comprise the overwhelming majority of CNL Healthcare Properties' debt (or almost 94% of our total borrowings). The company continues to be well-capitalized and well-positioned for 2024 and beyond with a sound balance sheet, strong liquidity and good financial flexibility.

Operationally, we experienced a very productive and positive 2023. While occupancy gains were slower than we or the seniors housing industry initially expected, we saw good, steady improvement throughout the year as we further expanded occupancy from pandemic-driven lows. Although labor costs and inflation continue to temper our and industry operating margins, our 54 properties managed under third-party operating agreements have

now posted a remarkable nine consecutive quarters of year-over-year revenue growth and six consecutive quarters of year-over-year net operating income (NOI) growth. In fact, our third quarter 2023 revenue of \$86.2 million represented the highest quarter of revenue in company history. Additionally, our 15 net-leased properties have been smaller, but very steady, contributors to our financial success. Despite our portfolio's meaningful revenue and NOI growth, which helped to mitigate the overall impact to property values, inescapable macroeconomic factors negatively impacted the annual valuation of our assets, as described in more detail below. Unfortunately, it is a sobering fact that the



*The company continues to be well-capitalized and well-positioned for 2024 and beyond with a sound balance sheet, strong liquidity and good financial flexibility.*

cost of essentially every expense input, be that staffing and personnel costs, interest expense, insurance, food, and fuel, to name a few key outflows, continued to increase at elevated rates during 2023 for us and others. Notwithstanding, we remain especially committed to managing and containing expenses to the extent they are within our sphere of influence or control.





HarborChase of Shorewood  
Shorewood, Wisconsin

When looking at the broader demographic trends, we are confident that we are in an interesting and encouraging time as we think about demand and supply fundamentals. According to the U.S. Census Bureau, all baby boomers will be older than 65 by 2030 and, more importantly, the first baby boomers turn 80 in 2026. This age cohort in particular has historically been the needs-based seniors housing resident demographic. Meanwhile, due to the pandemic and limited and expensive debt and equity capital, new supply of seniors housing communities is at an all-time low, with new inventory growth down approximately 56% since 2017, as reported by the National Investment Center for Seniors Housing and Care (NIC). The lack of new supply has led to above-average rent, revenue and cash flow growth for us and the seniors housing industry in general, which should continue to make our portfolio and business attractive for a future strategic transaction.

*We are optimistic about further driving our portfolio's current and forward-looking operational and financial performance and are fully committed to ultimately delivering a liquidity outcome for the balance of our portfolio that we feel will be in the best interest of our fellow shareholders.*

Our portfolio, which we believe is strategically streamlined and focused, comprises 69 geographically diversified seniors housing communities, and in 2023, we continued to be ranked in the top-25 largest owners of private-pay seniors housing communities in the U.S. Our properties operate in 26 states, still have a youthful effective average age of

less than 15 years old, and represent more than 7,500 units of independent living, assisted living, memory care and skilled nursing units, plus one vacant land parcel abutting an operating community.

For our 54 managed properties, we increased revenues by \$18.8 million (or 6.3%) in 2023 compared to 2022



MorningStar of Sparks  
Sparks, Nevada



and posted our highest-ever revenue in a quarter. However, inflation's effects on expenses and higher interest payments due to rising interest rates contributed to a 27.1% decline in cash flows from operating activities to \$32.0 million in 2023 compared to \$43.8 million in 2022.

### Summary of Financial and Operational Performance

CNL Healthcare Properties' portfolio represents an investment value of \$1.74 billion as of this report's date. For the year ended Dec. 31, 2023, we reported \$314.6 million in resident and service fees from our managed seniors housing properties, compared to \$295.8 million for the year ended Dec. 31, 2022. The gain was primarily due to increases in average occupancy and our ability to thoughtfully grow rates charged to our residents.

We earned \$26.9 million in rental income and related revenues from our group of net leased communities, the same as we did for this group of assets the previous year. At year-end 2023, the 15 triple-net leased assets in our portfolio have an average remaining lease term of 3.7 years.

The management team and board of directors of CNL Healthcare Properties continue to be especially focused on liquidity and balance sheet strength. Based on in-place investment value as of year-end 2023, we consider our balance sheet very strong and conservatively leveraged with a total debt-to-asset ratio of approximately 31.0%. For the year ended Dec. 31, 2023, the \$548 million outstanding under our \$600 million corporate credit facilities made up almost 94% of our outstanding debt. The successful early reworking of these facilities during 2023 represented a vital corporate

initiative as we believe many commercial real estate owners will not be in the position to access supportive and constructive debt capital in today's credit environment. Throughout 2023, we also proactively continued to manage our unhedged floating interest rate exposure at a low 11% of investment basis, compared to 12% the prior year. The company maintained \$106.1 million of liquidity, consisting of cash on hand and availability under our revolving credit facility, as of Dec. 31, 2023.

For the year ended Dec. 31, 2023, we declared and paid \$17.8 million of cash distributions representing an annualized yield of 1.63% on our recently updated estimated net asset value per share, discussed further below. The company and its board will continue to carefully assess actual operating results along with expected cash flow generation prospects when considering current and forward-looking distribution levels.

Due to expense pressures noted previously, our Funds from Operations (FFO) per share were down in 2023, at \$0.15 per share, or \$25.5 million compared with \$0.22 per share or \$39.0 million for 2022. Similarly, we reported decreased Modified Funds from Operations (MFFO) per share in 2023 of \$0.16 per share or \$27.3 million, compared to \$0.23 per share or \$40.2 million in 2022. 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.

Consistent with our regulatory and investor reporting requirement and ongoing investment performance evaluation, we recently concluded our annual estimated per share net asset valuation (NAV) exercise based on our portfolio and balance sheet as of Dec. 31, 2023. To conduct this valuation, we again engaged Robert A. Stanger & Co. Inc., a leading independent advisory firm, to provide fulsome external analyses and thorough appraisals to assist our board of directors and its valuation committee in determining an updated estimated NAV. Other than our proactive decision to continue to deduct estimated, theoretical transaction costs described below, the process for determining the NAV followed the company's internal valuation policy and certain methodologies prescribed by the Institute for Portfolio Alternatives (IPA), our leading industry association.

On March 12, 2024, our board of directors announced an estimated NAV per share of \$6.28 as of Dec. 31, 2023, for our common stock. This represents a decrease of \$0.64 per share (or reduction of 9.25%) compared to the previous year end. Despite a productive year of forward operational and financial progress for the company, the NAV per share reduction is reflective of the past two years of economic uncertainty in the seniors housing industry and general commercial real estate market. In addition, the rising cost of capital and inflationary pressures, coupled with a significantly tightened credit environment, have placed downward



pressure on commercial property values by way of increased capitalization rates, discount rates and lower expected operating margin levels. The decrease in our estimated NAV is driven by a decline in the value of the company's appraised properties along with a reduction in cash in December 2023, as we funded nonrecurring closing costs more than a quarter ahead of schedule in connection with the successful early refinancing of the company's corporate credit facilities.

As mentioned earlier, our most recent NAV reflects an ongoing deduction for our current projection of property-level transaction costs, presuming a hypothetical orderly liquidation of our assets to attempt to depict an estimated "net" calculation for shareholders. We began deducting hypothetical transaction costs in 2018 after publicly announcing the exploration of a strategic alternatives process to provide liquidity to shareholders. We continue to believe this is the appropriate way to assess value per share, even if others in the direct investment industry do not do the same.

While our valuation process is quite detailed and robust, 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 our liquidity process.

### Looking Ahead

While our pursuit of ultimate liquidity for our shareholders is always top of mind for management and the board, economic and transactional environments were definitely not conducive for dispositions or any type of large-scale strategic deals in 2023, as a result of choppy credit and debt capital markets, persistent

inflation and 11 consecutive interest rate increases by the Federal Reserve between March 2022 and July 2023. There remains continued uncertainty as to the timing and amount of potential future interest rate cuts. However, the key metrics for our business are strong, improved in 2023 and continue to trend up. We believe, the demographics and demand supporting our industry are exceptionally favorable. The National Investment Center for Seniors Housing and Care is reporting an increase in demand for seniors housing communities, with owners like us throughout the industry seeing the potential for continued rent and occupancy growth, as levels of new inventory remain low. Similarly, we and others share the widely held expectation that the seniors housing sector is positioned to grow cash flows in 2024 at a level that sets the pace for the broader commercial real estate industry. As a result of these conditions, we believe our company is especially well-positioned to capitalize when constructive transaction market conditions return.

We are optimistic about further driving our portfolio's current and forward-looking operational and financial performance and are fully committed to ultimately delivering a liquidity outcome for the balance of our portfolio that we feel will be in the best interest of our fellow shareholders. As always, we remain grateful for your ongoing support and confidence.

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

**Stephen H. Mauldin**  
CEO and President

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**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, 2023  
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**

**27-2876363**

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

**CNL Center at City Commons  
450 South Orange Avenue  
Orlando, Florida**

**32801**

(Address of principal executive offices)

(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:**

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

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**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.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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 \$6.92 net asset value (“NAV”) per share as of June 30, 2023 (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 \$1.2 billion.

**The number of shares of common stock of the registrant outstanding as of March 7, 2024 was 175,274,045.**

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, 2023 (“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,” the negative of such terms 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, macroeconomic conditions including inflation and rising interest rates, the recovery from the COVID-19 pandemic 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 (as amended, the “Advisory Agreement”). In June 2023, we amended the Advisory Agreement and renewed it through June 2025. 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 12. Related Party Arrangements.”

### **Seniors Housing Investment Focus and Strategy**

As of December 31, 2023, our investment portfolio consisted of interests in 70 properties, comprised of 69 seniors housing communities and one vacant land parcel. 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. 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, is 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). 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.

### **Possible Strategic Alternatives**

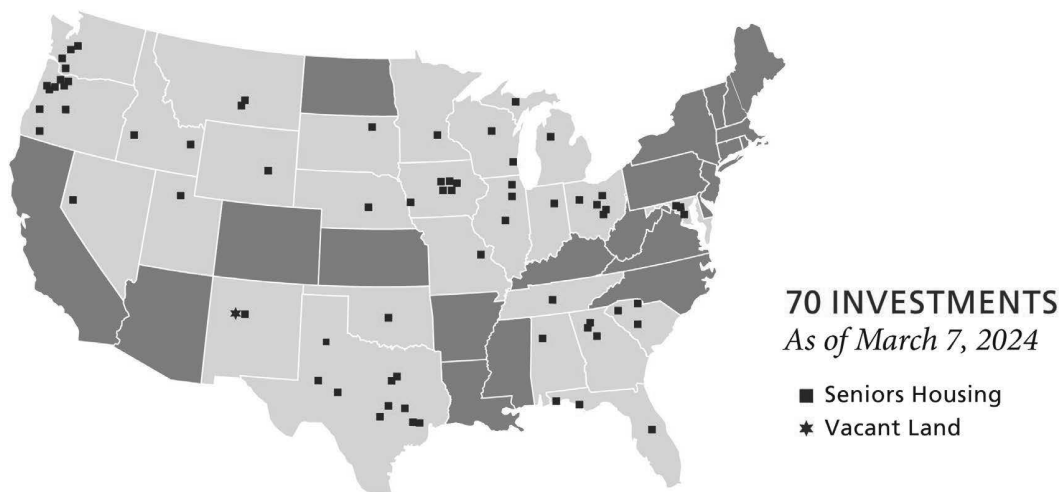
In 2017, we began evaluating possible strategic alternatives to provide liquidity to our stockholders. In April 2018, our board of directors formed a special committee consisting solely of our independent directors (“Special Committee”) to consider possible strategic alternatives, including, but not 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 common stock redemption plan (“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 medical office buildings, post-acute care facilities, acute care hospitals plus several skilled nursing facilities across the U.S. We sold the 70 properties, received net sales proceeds of approximately \$1.5 billion 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 (or \$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 to enhance financial flexibility.

Our Special Committee continues to work with our financial advisor to carefully study market data. Economic and transactional environments were not conducive for dispositions or any type of large-scale deals in 2023 due to a volatile credit and debt capital markets, along with 11 consecutive interest rate increases by the Federal Reserve between March 2022 and July 2023, with uncertainty on the timing and depth of potential future interest rate cuts. We remain fully committed to our readiness, active study and pursuit of additional Possible Strategic Alternatives to provide incremental liquidity to our stockholders when constructive market conditions return.

### Portfolio Overview

We believe demographic trends and compelling supply and demand indicators present a strong case for an investment focus on seniors housing real estate assets 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 7, 2024:



The following table summarizes our remaining healthcare portfolio by asset class and investment structure as of March 7, 2024:

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	17.8 %
Seniors housing managed <sup>(2)</sup>	54	1,427.6	82.1
Vacant land	1	1.1	0.1
	<b>70</b>	<b>\$ 1,739.7</b>	<b>100.0 %</b>

#### 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.



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 Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” 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, a component of which could include borrowings, whether collateralized by our properties or unsecured, or net sales proceeds from the sale of real estate. We have not established any limit on the extent to which we may use borrowings to pay distributions, and there is no assurance we will be able to sustain distributions at any level. Refer to Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations–Uses of Liquidity and Capital Resources - Distributions” for a table that presents total regular distributions declared and issued, and cash flows provided by operating activities for each quarter in the years ended December 31, 2023 and 2022.

## **Borrowings**

We have borrowed funds to acquire properties, to 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. 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 experienced broad-based occupancy declines and as a result, we expect elevated levels of competition to continue in 2024 and beyond as operators continue to 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 various federal, state and local laws, ordinances and regulations, including, among other things, the Americans with Disabilities Act of 1990, healthcare regulatory matters, environmental regulations, and zoning regulations and land use controls. Changes in these laws and regulations, or their interpretation by agencies and courts, occur frequently. We did not make any material capital expenditures in connection with these regulations during the year ended December 31, 2023 and we do not expect that we will be required to make any such material capital expenditures during 2024.

### ***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.

## ***Environmental Regulations***

As an owner of real property, we are subject to various federal, state and local laws and regulations regarding environmental, health and safety matters. These laws and regulations address, among other things, asbestos, polychlorinated biphenyls, fuel, oil management, wastewater discharges, air emissions, radioactive materials, medical wastes, and hazardous wastes, and in certain cases, the costs of complying with these laws and regulations and the penalties for non-compliance can be substantial. Even with respect to properties that we do not operate or manage, we may be held liable, primarily or jointly and severally, for costs relating to the investigation and clean-up of any property from which there is or has been an actual or threatened release of a regulated material and any other affected properties, regardless of whether we knew of or caused the release. Such costs typically are not limited by law or regulation and could exceed the property's value. In addition, we may be liable for certain other costs, such as governmental fines and injuries to persons, property or natural resources, as a result of any such actual or threatened release.

Under the terms of our lease and management agreements, we generally have a right to indemnification by the tenants or operators of our properties for any contamination caused by them. However, we cannot assure you that our tenants or operators will have the financial capability or willingness to satisfy their respective indemnification obligations to us, and any such inability or unwillingness to do so may require us to satisfy the underlying environmental claims.

## **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), persons subject to alternative minimum tax, 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. 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. If we are a domestically controlled REIT, the sale of our common stock should not be subject to taxation under FIRPTA. We cannot assure you that we are or will continue to be a domestically controlled REIT. Non-U.S. stockholders should consult their tax advisors regarding the application of these rules.

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

#### **Epidemics, pandemics, or other infectious diseases, including COVID-19, and health and safety measures intended to reduce their spread may have an adverse effect on the Company’s business, results of operations and financial condition.**

The COVID-19 pandemic resulted in a decline in occupancy, resident fees, and revenues, and coupled with an increase in COVID-19 operating expenses, had a negative impact on results of operations and cash flow from operations at the Company’s senior communities. Future epidemics, pandemics or infectious diseases, and future potential variants, may have a negative impact on the Company’s business, results from operations, financial condition, liquidity and cash flows, which impact will depend on many factors including: the ultimate duration thereof; the severity on seniors generally and those living in seniors housing communities specifically; the continued emergence of additional variants; 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 epidemic or pandemic which may impact demand for seniors housing communities.

Epidemics, pandemics or other infectious diseases, and actions taken by governments, businesses and individuals in response thereto could subject the Company’s business, operations, and financial condition to a number of risks, including, but not limited to:

- the Company’s ability to collect rents;
- occupancy rates in the Company’s facilities;
- the Company’s and its operators’ ability to evict residents for non-payment and for other reasons;
- the Company’s ability to repay existing debt and to secure new debt financing if needed;
- the Company’s ability to collect unpaid rent and to exercise other rights and remedies in bankruptcy proceedings involving tenant, operator, borrow, manager and other obligors;
- the Company’s ability to find replacement tenants as needed;
- the Company’s ability to control incremental costs, including increased costs resulting from higher inflation and insurance costs;
- staffing shortages resulting from the pandemic and other actions taken by local and national governments;
- potential litigation expenses and increased reputational risk; and
- the Company’s ability to pay distributions at expected levels or at all.

***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, committed to a plan to sell and the Company sold 70 properties consisting of medical office buildings, acute-care properties, post-acute care properties and skilled nursing facilities.

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 (or \$2.00 per share) and (4) retained net sales proceeds for other corporate purposes. As of December 31, 2023, the Company's investment portfolio consisted of interests in seniors housing communities 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. 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 the end of the calendar year. 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 the end of the calendar year. 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 the Company's total 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 releasing the property or developing an alternative use for the property and the liquidation value of the property may be substantially less than would be the case if the property were readily adaptable to other uses. Should any of these events occur, the Company's income and cash available for distribution and the value of the Company's property portfolio could be reduced.

***The financial condition of our operators and tenants can impact the Company's operating revenue.***

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 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 on a timely basis, if at all, based on the then conditions of the Company's industry or the country's economic conditions. If the Company cannot transition a leased property to a new tenant, 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 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.

***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.***

Recent increases in the rate of inflation, both real and 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. Inflation could erode the value of long-term leases that do not contain indexed escalation provisions, or contain fixed annual rent escalation provisions that are at rates lower than the rate of inflation, and increase expenses including those that cannot be passed through under our leases. Increased inflation could also increase our general and administrative expenses and, as a result of an increase in market interest rate in response to higher than anticipated inflation rate, increase our mortgage and debt interest costs, and these costs could increase at a rate higher than our rent increases.

***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 credit facilities 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.***

Our tenants and operators are subject to various federal, state and local laws, ordinances and regulations, including, in some cases, the Health Insurance Portability and Accountability Act of 1996, or HIPAA and various other state and federal laws that relate to privacy and data security. Failure to comply with these requirements could have a materially adverse effect on us and the ability of our tenants and operators to meet their obligations to us. While we and our tenants and operators maintain various security controls, there is a risk of data security incidents or breaches.

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. Where the data security incident or breach occurs at or involves a tenant or operator, the tenant's or operator's ability to fulfill its obligations to us could be jeopardized.

***Damage from catastrophic weather and other natural events and climate change could result in losses to us.***

Certain of our properties are located in areas that may experience catastrophic weather and other natural events from time to time, including hurricanes or other severe weather, flooding, fires, snow or ice storms, windstorms or, earthquakes. These adverse weather and natural events could cause substantial damages or losses to our properties which could exceed our insurance coverage. In the event of a loss in excess of insured limits, we could lose our capital invested in the affected property, as well as anticipated future revenue from that property. We could also continue to be obligated to repay any mortgage indebtedness or other obligations related to the property.

To the extent that significant changes in the climate occur, we may experience extreme weather and changes in precipitation and temperature and rising sea levels, all of which may result in physical damage to or a decrease in demand for properties located in these areas or affected by these conditions. The impact of climate change may be material in nature, including destruction of our properties, or occur for lengthy periods of time.

Growing public concern about climate change has resulted in the increased focus of local, state, regional, national and international regulatory bodies on greenhouse gas (“GHG”) emissions and climate change issues. Legislation to regulate GHG emissions has periodically been introduced in the U.S. Congress, and there has been a wide-ranging policy debate, both in the U.S. and internationally, regarding the impact of these gases and possible means for their regulation. Federal, state or foreign legislation or regulation on climate change could result in increased capital expenditures to improve the energy efficiency of our existing properties or to protect them from the consequence of climate change and could also result in increased compliance costs or additional operating restrictions that could adversely impact the businesses of our tenants and their ability to pay rent.

***Discovery of previously undetected environmentally hazardous conditions may adversely affect our operating results.***

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the cost of removal or remediation of hazardous or regulated substances on, under, in or about such property. The costs of investigation, removal or remediation of such substances could be substantial. Those laws may impose liability whether or not the owner or operator knew of, or was responsible for, the presence of the substances.

Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and compliance with those restrictions may require substantial expenditures. Environmental laws provide for sanctions in the event of noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Certain environmental laws and common law principles govern the presence, maintenance, removal and disposal of certain building materials, including mold, asbestos and lead-based paint.

The cost of defending against such claims of liability, of compliance with environmental requirements, of remediating any contaminated property, or of paying personal injury claims could materially adversely affect our business, assets or results of operations and, consequently, the amounts available for distribution to our stockholders.

We cannot assure our stockholders that properties which we acquired will not have any material environmental conditions, liabilities or compliance concerns. Accordingly, we have no way of determining at this time the magnitude of any potential liability to which we may be subject arising out of environmental conditions or violations with respect to the properties we own.

**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 credit facilities contain limitations on distributions and the extent of allowable distributions. The Company's credit facilities requires that allowable distributions not exceed the greater of 70% of adjusted FFO (as defined in the credit agreement for the credit facilities) or the amount of distributions required to be paid out 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, including the Company's current credit facilities, 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 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 may frequently and substantially change as a result of 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 because 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 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, without obtaining stockholder approval, 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; (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, 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 1C. CYBERSECURITY**

### **Cybersecurity Risk Management and Strategy**

We have no employees and are externally managed by our Advisor, an affiliate of our Sponsor. Our Advisor has responsibility for our day-to-day operations, serving as a consultant in connection with policy decisions to be made by the board of directors.

We recognize the importance of assessing, identifying, and managing material risks associated with cybersecurity threats, as such term is defined in Item 106(a) of Regulation S-K. These risks include, among other things: operational risks, intellectual property theft, fraud, extortion, harm to customers, reputational damage adversely affecting customer or investor confidence and violation of data privacy or security laws. Our Sponsor maintains an enterprise-wide cybersecurity program to protect and defend against and manage foreseeable cybersecurity risks and threats, including for the Company. The cybersecurity program is administered by the Sponsor's Chief Technology Officer ("CTO"), who has adopted the National Institute of Standards and Technology ("NIST") Cybersecurity Framework. Based on the NIST standards, our cybersecurity program breaks down its efforts to manage cybersecurity risk into five (5) pillars: identify, protect, detect, respond and recover.

Identifying and assessing cybersecurity risk as well as protecting us from such risk is integrated into our overall risk management systems and processes as well as specifically addressed in our enterprise-wide cybersecurity program. Cybersecurity risks related to our business, technical operations, privacy and compliance issues are identified and addressed through a multi-faceted approach including threat intelligence collaboration and advisory mediums, third-party due diligence and risk assessments when determining the selection, oversight and engagement of third-party service providers, application security evaluations and annual penetration tests as well as management risk and compliance reviews. The foregoing combines with periodic review and analysis of third-party service provider system and organizational controls, internal network intrusion prevention systems, vulnerability assessments, access management, data loss prevention, remote access control, mandatory cybersecurity awareness training and random phishing campaigns with additional requisite training, if applicable, to identify and protect against cybersecurity risk.

Any potential cybersecurity compromise, whether direct or indirect, is analyzed and documented by the securities operations team (the "SO Team") and escalated to the cybersecurity incident response team ("CSIRT") as necessary. The SO Team is comprised of cybersecurity professionals and the CSIRT is comprised of certain of the Sponsor's and Company's executives from legal, corporate communications, IT, compliance, finance, and risk management.

Security events and data incidents are evaluated, ranked by severity and prioritized for response and remediation. Incidents are evaluated to determine materiality as well as operational and business impact and reviewed for privacy impact. Materiality is determined by considering qualitative and quantitative factors. The CSIRT team also conducts tabletop exercises to simulate responses to cybersecurity incidents. Our team of cybersecurity professionals then collaborate with technical and business stakeholders across our business units to further analyze the risk to the company, and form detection, mitigation and remediation strategies.

Recovery and restoration from a cybersecurity incident can vary depending on type of attack and materiality of assets and information affected.

As of the date of this filing, we do not believe that our business strategy, results of operations or financial conditions have been materially affected by any risks from cybersecurity threats for the reporting period covered by this report. However, institutions like us, and our service providers, have experienced cybersecurity events and data incidents in the past and will likely continue to be the target of cyberattacks and intrusions. For additional information on the cybersecurity risks we face, see "Part 1, Item 1A. Risk Factors—Cyber security risks and cyber incidents could adversely affect the Company's business and disrupt operations."

### **Cybersecurity Governance**

Cybersecurity is an important part of our risk management processes and an area of focus for our board of directors and management. Our Audit Committee is responsible for the oversight of risks from cybersecurity threats. Members of the Audit Committee receive updates at least annually from senior management, including leaders from the CTO, internal audit and legal teams regarding matters of cybersecurity. This includes existing and new cybersecurity risks, status on how management is addressing and/or mitigating those risks, cybersecurity and data privacy incidents (if any) and status on key

information security initiatives. Our board of directors also engages in ad hoc conversations with management on cybersecurity-related news events and discuss any updates to our cybersecurity risk management and strategy programs.

The cybersecurity risk management and strategy processes are overseen by the Sponsor's cybersecurity committee which consists of the Company's chief financial officer and general counsel, and the CTO, legal, risk management, and compliance teams. Such individuals have an average of over 15 years of prior work experience in various roles involving information technology, including security, auditing, and compliance. These individuals are informed about, and monitor the prevention, mitigation, detection and remediation of cybersecurity incidents through their management of, and participation in, the cybersecurity risk management and strategy processes described above, including the operation of our incident response plan, and report to the Audit Committee on any appropriate items.

## Item 2. PROPERTIES

As of December 31, 2023, we had investments in 70 real estate investment properties, as described in Item 1. “Business—Seniors Housing Investment Focus and Strategy.” The following tables set forth details on our consolidated healthcare investment portfolio by asset class (in millions):

Name and Location	Structure	Date Acquired	Encumbrance at 12/31/2023	Investment Amount
<b>Seniors Housing (Leased)</b>				
Primrose Retirement Community of Casper Casper, WY	Triple-net Lease	2/16/2012	\$ —	\$ 19.0
Sweetwater Retirement Community Billings, MT	Triple-net Lease	2/16/2012	—	16.3
Primrose Retirement Community of Grand Island Grand Island, NE	Triple-net Lease	2/16/2012	—	13.4
Primrose Retirement Community of Mansfield Mansfield, OH	Triple-net Lease	2/16/2012	—	18.3
Primrose Retirement Community of Marion Marion, OH	Triple-net Lease	2/16/2012	—	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
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

<b>Name and Location</b>	<b>Structure</b>	<b>Date Acquired</b>	<b>Encumbrance at 12/31/2023</b>	<b>Investment Amount</b>
<b>Senior Housing (Managed) - continued</b>				
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
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 <sup>(1)</sup> Mansfield, TX ("Dallas/Fort Worth")	Managed	6/30/2014	—	49.0
<b>Senior Housing (Managed) - continued</b>				

<b>Name and Location</b>	<b>Structure</b>	<b>Date Acquired</b>	<b>Encumbrance at 12/31/2023</b>	<b>Investment Amount</b>
Watercrest at Katy <sup>(2)</sup> Lubbock, TX	Managed	6/27/2014	\$ 20.7	\$ 37.2
Fairfield Village of Layton Layton, UT (“Salt Lake City”)	Managed	11/20/2014	—	68.0
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
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
Windsor Manor of Vinton Vinton, IA	Managed	8/31/2012	2.4	5.0
Windsor Manor of Webster City Webster City, IA	Managed	8/31/2012	2.2	5.8
Windsor Manor of Nevada Nevada, IA	Managed	8/31/2012	4.9	5.3
Windsor Manor of Indianola Indianola, IA	Managed	4/2/2013	1.9	4.9
Windsor Manor of Grinnell Grinnell, IA	Managed	4/2/2013	4.7	5.5
<b>Vacant Land</b>				
Albuquerque NM, Land Owner Albuquerque, NM	Managed	9/7/2017	—	1.1
			<b>\$ 36.8</b>	<b>\$ 1,739.7</b>

**FOOTNOTES:**

- (1) The encumbrance collateralized by this property was repaid in March 2023.
- (2) Property owned through a consolidated joint venture in which we hold a 95% controlling interest.

**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, 2023, our board of directors initiated a process to estimate the Company's NAV per share as of December 31, 2023 ("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 7, 2023, our board of directors accepted the recommendation of our Valuation Committee and approved an estimated NAV as of December 31, 2023 of \$6.28 per share, which includes deductions for estimated transaction costs (the "2023 NAV"). The Company previously announced an estimated NAV of \$6.92 per share as of December 31, 2022 (the "2022 NAV") and previously announced an estimated NAV of \$7.37 per share as of December 31, 2021 (the "2021 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 12, 2024.

#### Stockholder Information

As of December 31, 2023, we had 46,183 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 redemption 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. 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 and MFFO, as well as expected future long-term cash flows, FFO and MFFO;
- the impact of the disruptions from the COVID-19 pandemic on occupancy and 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, inflation levels, rising interest rates, the general economic environment and other factors.

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 cash distributions declared and issued, and cash flows provided by operating activities for each quarter in the years ended December 31, 2023 and 2022. 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, a rising interest rate environment 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, 2023 and 2022 were as follows:

	Years Ended December 31,	
	2023	2022
Return of capital	100.00%	100.00%

Due to a variety of factors, the characterization of distributions declared for the year ended December 31, 2023 may not be indicative of the characterization of distributions that may be expected for the year ending December 31, 2024. 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, 2023 and 2022 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, 2023, 2022 and 2021, there were approximately 2,297,000 shares, 936,000 shares and 743,000 shares transferred between investors, respectively, at an average sales price per share of approximately \$4.48, \$4.77 and \$4.13, 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**

## **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, 2021 is 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, 2022 as filed on March 10, 2023 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 the Advisory Agreement. In June 2023, we amended the Advisory Agreement and extended it through June 2025. 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 12. Related Party Arrangements.”

As of December 31, 2023, our seniors housing investment portfolio consisted of interests in 70 properties, consisting of a geographically diversified portfolio of 69 seniors housing communities and one vacant land parcel. 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 69 seniors housing properties were previously owned through an unconsolidated joint venture and became wholly-owned effective January 1, 2022.

### **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 common stock redemption plan (“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 medical office buildings, post-acute care facilities, acute care hospitals plus several skilled nursing facilities across the U.S. We sold the 70 properties, received net sales proceeds of approximately \$1.5 billion 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 (or \$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 to enhance financial flexibility.

Our Special Committee continues to work with our financial advisor to carefully study market data. Economic and transactional environments were not conducive for dispositions or any type of large-scale deals in 2023 due to a volatile credit and debt capital markets, along with 11 consecutive interest rate increases by the Federal Reserve between March 2022 and July 2023, with uncertainty on the timing and depth of potential future interest rate cuts. We remain fully committed to our readiness, active study and pursuit of additional Possible Strategic Alternatives to provide incremental liquidity to our stockholders when constructive market conditions return.

## Seniors Housing Portfolio

Our remaining investment focus is in seniors housing communities. We have 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.

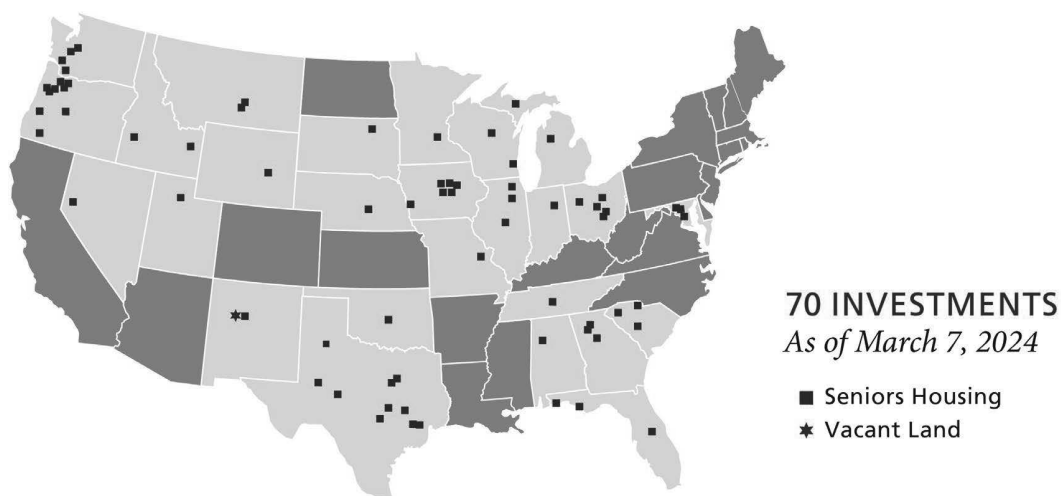
*Assisted Living Facilities.* Assisted living facilities are usually state-regulated rental properties that provide the same services as independent living facilities, but also provide, in a majority of the units, supportive care from trained employees to residents who are unable to live independently 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, 2023, our healthcare investment portfolio consisted of interests in 70 properties, comprising 69 seniors housing communities and one vacant land parcel.

We believe demographic trends and compelling supply and demand indicators present 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 7, 2024:



The following table summarizes our seniors housing investment portfolio by investment structure as of March 7, 2024:

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	17.8%
Seniors housing managed <sup>(2)</sup>	54	1,427.6	82.1
Vacant land	1	1.1	0.1
	<b>70</b>	<b>\$ 1,739.7</b>	<b>100.0%</b>

#### 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.

## 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 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 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 69 seniors housing properties is operated by a mix of national or regional operators and the following represents the significant tenants and operators that lease or manage 10% or more of our rentable space as of March 7, 2024, excluding the vacant land parcel:

<b>Tenants</b>	<b>Number of Properties</b>	<b>Rentable Square Feet (in thousands)</b>	<b>Percentage of Rentable Square Feet</b>	<b>Lease Expiration Year</b>
TSM Management, LLC	13	1,261	77.5%	2025
Wellmore, LLC	2	366	22.5	2031-2032
	15	1,627	100.0%	

<b>Operators</b>	<b>Number of Properties</b>	<b>Rentable Square Feet (in thousands)</b>	<b>Percentage of Rentable Square Feet</b>	<b>Operator Expiration Year</b>
Integrated Senior Living, LLC	7	1,948	30.8%	2024
Prestige Senior Living, LLC	13	895	14.2	2026
Morningstar Senior Management, LLC	4	834	13.2	2024
Other operators <sup>(1)</sup>	30	2,645	41.8	2024-2029
	54	6,322	100.0%	

### FOOTNOTE:

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

## Operator Expirations

As of March 7, 2024, we had 54 seniors housing properties managed by third-party operators. All of our management agreements have been in place for multiple years and some include annual auto-renewal clauses which are effective unless a notice of termination is provided by either party. We work with our operators in advance of management agreement expirations or renewal period options in order for us to maintain a balanced operator rollover schedule, which provides us flexibility to execute on possible strategic alternatives, minimize potential early termination fees and align with the broader industry. The management agreements of 33 of our managed seniors housing properties were scheduled to expire within one year or less as of December 31, 2023, all of which are expected to be renewed.

## Tenant Lease Expirations

As of December 31, 2023, we owned 15 seniors housing properties that were leased to third party tenants under triple-net operating leases. During the year ended December 31, 2023, our rental income represented approximately 7.9% of our total revenues.

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 are liable.

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.

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

Year of Expiration <sup>(1)</sup>	Number of Properties	Expiring Leased Square Feet	Expiring Annualized Base Rents <sup>(2)</sup>	Percentage of Expiring Annual Base Rents
2024	—	—	\$ —	— %
2025	13	1,261	18,585	68.3
2026	—	—	—	—
2027	—	—	—	—
2028	—	—	—	—
2029	—	—	—	—
2030	—	—	—	—
2031	1	137	3,710	13.6
2032	1	229	4,937	18.1
2033	—	—	—	—
Thereafter	—	—	—	—
Total	15	1,627	\$ 27,232	100.0 %

**Weighted Average Remaining Lease Term: <sup>(3)</sup> 3.7 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 increases 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 rate of occupancy recovery from the COVID-19 pandemic and by the higher interest rate environment. 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.

Weighted average occupancy was higher during the year ended December 31, 2023 as compared to the year ended December 31, 2022. We implemented rate increases at our properties as part of ongoing resident lease renewals throughout 2022 and continued to implement rate increases during 2023, which, combined with improved occupancy as compared to 2022, resulted in an increase in revenues during the year ended December 31, 2023. Labor costs remained at elevated levels during this period due to increased wages in a tight labor market. The “great resignation” resulted in an increase in the number of vacant positions at our communities, which led to increased reliance on temporary agency personnel to temporarily fill vacancies. Our intensified focus since 2022 of hiring and filling some of the vacant staff roles resulted in ongoing reductions in our reliance on temporary agency labor during 2023. Increases in occupancy and resident rates increased revenue streams during the year ended December 31, 2023. However, labor costs remained at elevated levels during 2023 and we anticipate that labor costs will remain at elevated levels in 2024.

Macro-economic and geopolitical events around the globe have contributed to volatile credit markets. As part of its effort to reduce the rising levels of inflation, the Federal Reserve enacted several interest rate increases beginning in March 2022. Those interest rate increases continued through July 2023 with the Federal Reserve holding rates steady through the date of this filing. The rising interest rate environment throughout 2023 and the Federal Reserve’s decision to hold rates steady and postpone rate cuts contributed to, and until rate cuts are announced, will contribute to higher levels of interest expense on our unhedged variable rate debt. We have used interest rate caps and swaps for interest rate protection on a portion of our variable rate debt and continue to monitor opportunities to further protect the remaining unhedged variable rate debt.

As of December 31, 2023, we had approximately \$106.1 million of liquidity (consisting of \$54.1 million cash on hand and \$52.0 million in undrawn availability under the 2023 Revolving Credit Facility). We remain focused on maintaining liquidity and financial flexibility and continue to monitor developments as we continue to recover from the disruptions in occupancy from COVID-19, continue to navigate through rising labor costs during a tight labor market and the increase in interest costs from an elevated interest rate environment. The rate of occupancy recovery from COVID-19, a tight labor market, volatility in the credit markets and the current interest rate environment may impact our financial condition, results of operations and cash flows.

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 and the current interest rate environment, 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 elevated interest rate levels on our unhedged variable rate debt or the timing of when we seek to refinance existing debt. As part of our variable debt hedging strategy, we have purchased interest rate caps and swaps for interest rate protection. We continue to monitor the credit markets and continue to evaluate the need and the timing for additional interest rate protection in the form of interest rate caps or swaps on unhedged variable rate debt or variable rate debt with interest rate protection scheduled to mature.

### **Sources of Liquidity and Capital Resources**

#### *Proceeds from Sale of Real Estate*

During the year ended December 31, 2023, we did not sell any properties. During the year ended December 31, 2022, we closed on the sale of a specialty hospital and the sale of the Fieldstone at Pear Orchard and Fieldstone Memory Care properties (collectively, the “Fieldstone Properties”), and received net sales proceeds of approximately \$36.7 million. One of our Fieldstone Properties was indirectly owned through a consolidated joint venture and we used a portion of the net sales proceeds from the sale of the property owned by the consolidated joint venture to pay distributions to our co-venture partner in accordance with the terms of the joint venture agreement.



### *Borrowings*

During the year ended December 31, 2023, we refinanced a \$16.1 million mortgage loan with the existing lender. We also refinanced the \$548 million outstanding under our unsecured Credit Facilities. We elected to refinance the mortgage loan and the Credit Facilities in advance of their scheduled 2024 maturity dates. See “Liquidity and Capital Resources - Uses of Liquidity and Capital Resources - Debt Repayments” below for additional information.

During the year ended December 31, 2022, we borrowed \$45.0 million from our then existing revolving credit facility (the “Revolving Credit Facility”) to refinance approximately \$44.5 million of secured indebtedness in advance of its September 2022 maturity.

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 compressed property NOI margins from rising labor costs, inflationary pressures on other operating expenses and an increased interest rate environment.

### *Purchase of and Maturity of Investments in Short-Term Securities*

During the year ended December 31, 2022, we used approximately \$24.2 million of available cash to purchase held-to-maturity securities to enhance the yield earned on cash on hand. During the year ended December 31, 2023, we reinvested approximately \$4.9 million of proceeds received from the maturity of one of our investments in short term securities. During the year ended December 31, 2023, all of our investments matured and we received approximately \$30.0 million from the maturity of all of our investments in short-term securities. We did not have any short-term security maturities during the year ended December 31, 2022.

### *Net Cash Provided by Operating Activities*

Cash flows from operating activities for the years ended December 31, 2023 and 2022 were approximately \$32.0 million and \$43.8 million, respectively. The change in cash flows from operating activities for the year ended December 31, 2023 as compared to the same period in 2022 was primarily the result of the following:

- higher interest expense due to the higher interest rate environment; and
- \$1.0 million received in state grants during the year ended December 31, 2023, compared to \$4.3 million received in provider relief funds under the CARES Act during the year ended December 31, 2022; and
- the sale of two properties in August 2022, partially offset by
- an increase in property NOI related to our seniors housing properties due to higher average occupancy and rate increases during 2023.

### *Lease Renewals and Extensions*

In February 2022, we entered into new leases covering five of our properties that expired in February 2022 with the same tenant. These leases will expire in February 2025. We do not have any leases expiring until 2025.

### *Expense Support and Restricted Stock Agreement*

Through June 8, 2023, we had 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 (“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) our aggregate modified funds from operations over the same period (as defined in the Amended and Restated Expense Support Agreement). We did not recognize any expense support for the years ended December 31, 2023 or 2022. The Amended and Restated Expense Support Agreement, was terminated effective June 8, 2023 as part of the renewal and amendment of the Advisory Support Agreement. See Item 8. “Financial Statements and Supplementary Data — Note 12. Related Party Arrangements” for additional information.

## Uses of Liquidity and Capital Resources

### *Acquisition of Joint Venture Interest*

As of December 31, 2021, we indirectly owned five properties through a 75% interest in the Windsor Manor Joint Venture, an unconsolidated equity method investment. Effective January 1, 2022, we acquired the remaining 25% interest from our joint venture partner for approximately \$3.3 million and we currently own a 100% controlling interest in the Windsor Manor Joint Venture.

### *Capital Expenditures*

We paid approximately \$15.9 million and \$17.8 million in capital expenditures during the years ended December 31, 2023 and 2022, respectively. We continue to invest in capital improvements to maintain and improve our properties.

### *Debt Repayments*

In January 2023, we used a portion of our cash on hand to make a \$1.4 million unscheduled principal payment on a mortgage loan collateralized by five properties. In June 2023, we refinanced the remaining \$16.1 million balance relating to this mortgage loan with the existing lender. This mortgage loan had a LIBOR based benchmark rate and was scheduled to mature in February 2024. In connection with the refinancing, we amended certain terms and transitioned its benchmark rate from LIBOR to Term SOFR effective June 30, 2023, extended the maturity date from February 2024 to February 2026 and obtained two one-year extension options. We paid the Advisor a financing coordination fee of approximately \$0.2 million related to this transaction. Refer to Item 8. “Financial Statements and Supplementary Data – Note 12. Related Party Arrangements” for additional information.

In March 2023, we used cash on hand and repaid a mortgage loan of approximately \$22.8 million collateralized by one property in advance of its scheduled maturity of June 2023. In addition to the repayments described above, during the year ended December 31, 2023, we repaid approximately \$1.1 million of scheduled principal payments related to our secured mortgage notes.

The \$548 million outstanding under our unsecured credit facilities consisted of a Revolving Credit Facility, which had an original maturity date of May 2023 with a one-year extension option, the Term Loan Facility and the 2021 Term Loan Facility that matured in May 2024 (collectively, the “Credit Facilities”). In January 2023, we exercised our one-year extension option and extended the maturity date of our Revolving Credit Facility from May 2023 to May 2024. In December 2023, we refinanced the \$548 million outstanding under our Credit Facilities in advance of their May 2024 maturity. Even though we reduced the total commitment size from \$665 million to \$600 million, we maintained the same \$548 million outstanding as part of the refinancing. The new facility consists of a \$350 million senior unsecured term loan (the “2023 Term Loan”) and a \$250 million senior unsecured revolving credit facility (the “2023 Revolving Credit Facility”), collectively, the “2023 Credit Facilities”. The 2023 Credit Facilities require interest only payments through their maturity date of May 31, 2026, bear interest based on term SOFR plus 10 basis points plus an applicable margin of 225 basis points. Each of the 2023 Revolving Credit Facility and 2023 Term Loan Facility is pre-payable at any time in whole or part without fees or penalties. We paid the Advisor a financing coordination fee of approximately \$6.0 million. Refer to Item 8. “Financial Statements and Supplementary Data – Note 12. Related Party Arrangements” for additional information.

We are required to pay an unused fee of 0.20% of the unused portion of the commitment amount under the 2023 Revolving Credit Facility if usage is less than 50% and an unused fee of 0.15% if usage under such facility is greater than 50%. We are also required to enter into hedging agreements with respect to a portion of the aggregate outstanding principal amount under the 2023 Credit Facilities. In December 2023, we entered into a two-year interest rate swap agreement to hedge a portion of our unsecured 2023 Credit Facilities. Refer to Item 8. “Financial Statements and Supplementary Data – Note 13. Derivative Financial Instruments” for additional information.

During the year ended December 31, 2022, we paid approximately \$46.3 million, which included \$1.8 million of scheduled repayments on our mortgages and other notes payable and the June 2022 refinance of approximately \$44.5 million of secured indebtedness, consisting of debt collateralized by five properties. We refinanced the debt maturity, added the five properties to the borrowing base of our unsecured Credit Facilities and used \$45.0 million from amounts available under the unsecured Revolving Credit Facility to repay our secured indebtedness.

The following table provides details of the Company's indebtedness as of December 31, 2023 and 2022 (in thousands):

	<b>As of December 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Mortgages payable and other notes payable:</b>		
Fixed rate debt <sup>(1)</sup>	\$ 20,668	\$ 44,082
Variable rate debt <sup>(1)(2)(3)(7)</sup>	16,150	17,859
Premium <sup>(4)</sup>	—	17
Loan costs, net	(249)	(185)
Total mortgages and other notes payable, net	36,569	61,773
<b>Credit facilities:</b>		
Revolving Credit Facility <sup>(5)(6)(7)</sup>	—	133,000
Term Loan Facility <sup>(5)(6)(7)</sup>	—	265,000
2021 Term Loan Facility <sup>(5)(6)(7)</sup>	—	150,000
2023 Revolving Credit Facility <sup>(5)(6)(7)</sup>	198,000	—
2023 Term Loan Facility <sup>(5)(6)(7)</sup>	350,000	—
Loan costs, net related to Term Loan Facilities	(6,160)	(1,900)
Total credit facilities, net	541,840	546,100
Total indebtedness, net	\$ 578,409	\$ 607,873

**FOOTNOTES:**

- (1) As of December 31, 2023 and 2022, our mortgages and other notes payable were collateralized by six and seven properties, with a total carrying value of approximately \$51.0 million and \$92.7 million, respectively.
- (2) In connection with the acquisition of the 25% interest in the Windsor Manor Joint Venture, we consolidated the net assets of the joint venture effective January 1, 2022, including the debt associated with the properties, at fair value.
- (3) As of December 31, 2023 and 2022, we had interest rate protection through an interest rate cap with a notional amount of \$8.0 million and \$15.0 million, respectively. Refer to Item 8. "Financial Statements and Supplementary Data – Note 13. Derivative Financial Instruments" for additional information.
- (4) Premium was reflective of recording mortgage note payables assumed at fair value on the respective acquisition dates. The associated loan was paid in full during the year ended December 31, 2023.
- (5) During the years ended December 31, 2023 and 2022, we had interest rate protection through interest rate swaps and caps which as of December 31, 2023 and 2022, had notional amounts of \$367.0 million and \$355.0 million, respectively.
- (6) As of December 31, 2023 and 2022, we had undrawn availability under the applicable revolving credit facility of approximately \$52.0 million and \$117.0 million, respectively, based on the commitments from lenders and the value of the properties in the unencumbered pool of assets supporting the loan. We reduced the commitment size of our credit facilities from \$665 million to \$600 million as part of refinancing our 2023 Credit Facilities.
- (7) Term SOFR (as defined in the respective agreements governing our credit facilities and one mortgage loan) was approximately 5.45% and 4.46% as of December 31, 2023 and 2022.

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

2024	\$ 20,968
2025	308
2026	563,542
2027	—
2028	—
Thereafter	—
	\$ 584,818

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.

As of December 31, 2023, we had approximately \$106.1 million of liquidity (consisting of \$54.1 million of cash on hand and \$52.0 million available under the 2023 Revolving Credit Facility) and we believe we are well positioned to manage our near-term debt maturities. As of December 31, 2023, we had \$21.0 million of scheduled principal payments coming due during the year ending December 31, 2024, which includes a mortgage loan maturing in November 2024 of \$20.2 million. As of December 31, 2023, we have sufficient cash on hand to satisfy these obligations.

The aggregate amount of long-term financing is not expected to exceed 60% of our gross asset values (as defined in our 2023 Credit Facilities) on an annual basis. As of December 31, 2023 and 2022, we had aggregate debt leverage ratios of approximately 31.0% and 31.9%, respectively, of the aggregate carrying value of our assets.

The 2023 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 70% of adjusted FFO (as defined per the 2023 Credit Facilities) and the minimum amount of distributions required to maintain the Company's REIT status. As of December 31, 2023, we were in compliance with all financial covenants related to our 2023 Credit Facilities.

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. As of December 31, 2023, we were in compliance with all financial covenants related to our mortgage loans.

#### *Purchase of Interest Rate Cap*

As part of our hedging strategy, we entered into interest rate cap agreements to hedge a portion of our variable rate debt. During the year ended December 31, 2023, we paid approximately \$3.2 million to purchase two short-term interest rate caps with a combined notional value of \$428.0 million, a strike price of 3.5%, and maturity dates during the year ended December 31, 2023, to hedge the majority of our variable rate interest exposure relating to our 2023 Credit Facilities and our \$16.3 million of variable rate secured indebtedness that we refinanced in June 2023. During the year ended December 31, 2023, we collected a combined \$3.2 million from the interest rate cap counterparties related to our two interest rate caps which are included in interest expense and loan costs amortization in the accompanying consolidated statements of operations. In December 2023, we paid approximately \$0.1 million to purchase a short-term interest rate cap with a notional value of \$8.0 million, a strike price of 3.5%, and a maturity date of July 2024 to hedge a portion of our interest rate exposure relating to \$16.2 million of variable rate secured indebtedness.

During the year ended December 31, 2022, we paid approximately \$0.1 million to purchase a short-term interest rate cap with a notional value of \$15.0 million, a strike price of 3.5%, and a maturity date of July 2023 to hedge a portion of our interest rate exposure relating to \$16.3 million of variable rate secured indebtedness. During the year ended December 31, 2022, we earned a combined \$2.4 million from the interest rate cap counterparties related to our two interest rate caps.

#### *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, a component of which could include borrowings, whether collateralized by our properties or unsecured, or net sales proceeds from the sale of real estate.

In March 2022, our board of directors reduced our quarterly distributions to \$0.0256 per share effective with the first quarter 2022 distribution. The decrease in the quarterly distribution rate was the result of various factors including, without limitation, the continued COVID-19 impact on industry performance, inflation rates and volatility in the credit markets. Our management team and our board of directors will continue to monitor our results of operations and operating cash flows, as well as our strategic alternatives process and make no assurances regarding future quarterly cash distributions.

The following table presents total cash distributions declared, distributions reinvested and cash distributions per share on a quarterly basis for the years ended December 31, 2023 and 2022 (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>2023 Quarters</b>			
First	\$ 0.02560	\$ 4,453	\$ 5,328
Second	0.02560	4,453	11,415
Third	0.02560	4,454	7,873
Fourth	0.02560	4,453	7,338
Total	<u>\$ 0.10240</u>	<u>\$ 17,813</u>	<u>\$ 31,954</u>
<b>2022 Quarters</b>			
First	\$ 0.02560	\$ 4,453	\$ 8,236
Second	0.02560	4,453	15,840
Third	0.02560	4,454	10,318
Fourth	0.02560	4,454	9,452
Total	<u>\$ 0.10240</u>	<u>\$ 17,814</u>	<u>\$ 43,846</u>

**FOOTNOTES:**

- (1) For the years ended December 31, 2023 and 2022, our net loss attributable to common stockholders was approximately \$25.7 million and \$1.5 million, respectively, while cash distributions declared for each of the periods were approximately \$17.8 million. For each of the years ended December 31, 2023 and 2022, 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) 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.

*Distributions to Noncontrolling Interests*

During the year ended December 31, 2023, our consolidated joint ventures paid distributions of approximately \$0.1 million to the co-venture partners, representing their pro rata share of operating cash flows. During the year ended December 31, 2022, our consolidated joint ventures paid distributions of approximately \$2.2 million to co-venture partners, which included \$2.0 million representing the pro rata share of net sales proceeds from the sale of one of the Fieldstone Properties owned by one of the consolidated joint ventures, and the balance represented their pro rata share of operating cash flows. During the year ended December 31, 2023, we liquidated the consolidated joint venture that previously owned one of the Fieldstone Properties.

**Results of Operations**

Except for the impact of elevated labor costs, inflation and a rising interest rate environment, 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, 2023 as compared to the fiscal year ended December 31, 2022***

As of each of December 31, 2023 and 2022, excluding our vacant land, we owned 69 consolidated operating investment properties.

<b>Consolidated operating investment types:</b>	<b>Investment count as of December 31,</b>	
	<b>2023</b>	<b>2022</b>
Seniors housing leased	15	15
Seniors housing managed	54	54
	<u>69</u>	<u>69</u>

*Rental Income and Related Revenues.* Rental income and related revenues were approximately \$26.9 million and \$26.9 million for the years ended December 31, 2023 and 2022, respectively.

*Resident Fees and Services.* Resident fees and services income was approximately \$314.6 million and \$295.8 million for the years ended December 31, 2023 and 2022, respectively. The increase in revenue during the year ended December 31, 2023, was primarily due to an increase in average occupancy and increases in rates charged to our residents. The increase was partially offset by the sale of two properties in August 2022.

*Property Operating Expenses.* Property operating expenses were approximately \$235.5 million and \$226.8 million for the years ended December 31, 2023 and 2022, respectively. Property operating expenses increased during the year ended December 31, 2023, primarily due to an increase in average occupancy and increased labor costs. The increase in property operating expenses was partially offset by the sale of two properties in August 2022.

*General and Administrative Expenses.* General and administrative expenses were approximately \$9.1 million and \$10.2 million for the years ended December 31, 2023 and 2022, respectively. General and administrative expenses were comprised primarily of personnel expenses of affiliates of our Advisor, directors' and officers' insurance, franchise taxes, sales taxes, accounting, legal and other professional fees, and board of director fees.

*Asset Management Fees.* We incurred asset management fees of approximately \$13.9 million and \$14.1 million for the years ended December 31, 2023 and 2022, 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.

*Property Management Fees.* We incurred property management fees payable to our third-party property managers of approximately \$15.4 million and \$14.7 million for the years ended December 31, 2023 and 2022, respectively. The property management fees are based on a percentage of revenues under the property management agreement and the increase across periods is reflective of the increase in average occupancy and resident fees and service revenues over the same period as described above.

*Financing Coordination Fees.* We incurred financing coordination fees of approximately \$2.7 million for the year ended December 31, 2023, related to refinancing the 2023 Credit Facilities and the refinancing of the \$16.3 million mortgage loan secured by five properties. We did not incur any financing coordination fees for the year ended December 31, 2022.

*Depreciation and Amortization.* Depreciation and amortization expenses were approximately \$51.2 million and \$54.2 million for the years ended December 31, 2023 and 2022, respectively. Depreciation and amortization expenses are comprised of depreciation and amortization of the buildings, equipment, land improvements and in-place leases related to our real estate portfolio. The decrease during the year ended December 31, 2023, as compared to the year ended December 31, 2022, is primarily due to intangible assets resulting from the consolidation of the Windsor Manor assets effective January 1, 2022 becoming fully amortized subsequent to December 31, 2022, as well as the sale of the two properties in August 2022.

*Gain on Sale of Real Estate.* Gain on the sale of real estate of the Fieldstone Properties was approximately \$6.3 million during the year ended December 31, 2022. One of the Fieldstone Properties was indirectly owned through a consolidated joint venture. Of the aggregate gain on the sale of real estate for the year ended December 31, 2022, approximately \$5.4 million was allocable to common stockholders and the balance was allocable to noncontrolling interests. We did not sell any properties during the year ended December 31, 2023.

*Interest and Other Income.* Interest and other income was approximately \$3.1 million and \$4.7 million for the years ended December 31, 2023 and 2022, respectively. Interest and other income included approximately \$1.0 million and \$4.3 million during the years ended December 31, 2023 and 2022, respectively, in COVID-19 relief funds from the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). We received or recognized provider relief funds under the CARES Act, which were deemed governmental grants provided that the recipient could attest to and comply with certain terms and conditions. We recorded these provider relief funds as other income in the accompanying consolidated statements of operations as all conditions of the grant had been met. Other income also includes \$0.6 million and \$0.8 million in interest income from cash deposits and investments in U.S. Treasuries. See 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 \$41.9 million and \$21.8 million for the years ended December 31, 2023 and 2022, respectively. The increase in interest expense and loan cost amortization for the year ended December 31, 2023, as compared to the year ended December 31, 2022, is primarily due to the higher weighted average interest rates, primarily from our floating rate debt. During the years ended December 31, 2023 and 2022, we were able to partially mitigate the full impact from the rise in interest rates due to the interest rate protection in place throughout 2023 and 2022 as part of our overall variable debt hedging strategy.

*Gain on Change of Control of a Joint Venture.* As described below in Item 8. “Financial Statements and Supplemental Data – Note 4. Acquisition,” during the year ended December 31, 2022, we recognized a gain of approximately \$8.4 million as part of acquiring the remaining 25% interest in the Windsor Manor Joint Venture from our joint venture partner, resulting in us owning a 100% controlling interest in the Windsor Manor Joint Venture and derecognizing our equity method investment in the Windsor Manor Joint Venture. We did not record such gains during the year ended December 31, 2023.

*Net income attributable to noncontrolling interests.* Net income attributable to non-controlling interests was approximately \$34.0 thousand and \$1.0 million for the years ended December 31, 2023 and 2022, respectively. Net income attributable to noncontrolling interests during the year ended December 31, 2022 included a gain on sale of real estate of approximately \$0.9 million attributable to noncontrolling interest from the sale of one of the Fieldstone Properties by one of our consolidated joint ventures in August 2022.

## 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 also includes NOI from a property sold in April 2022 and the two properties sold in August 2022, as we did not own these 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, 2023 and 2022 (in thousands) and the amount invested in properties as of December 31, 2023 and 2022 (in millions):

	Years Ended December 31,		Change	
	2023	2022	\$	%
Net loss	\$ (25,664)	\$ (412)		
Adjusted to exclude:				
General and administrative expenses	9,101	10,209		
Financing coordination fees	2,671	—		
Asset management fees	13,856	14,074		
Depreciation and amortization	51,234	54,242		
Gain on sale of real estate	—	(6,282)		
Other expenses, net of other income	38,760	8,742		
Income tax expense	560	540		
NOI	\$ 90,518	\$ 81,113	\$ 9,405	11.6 %
Less: Non-same-store NOI	—	1,302		
Same-store NOI	\$ 90,518	\$ 79,811	\$ 10,707	13.4 %
Invested in operating properties, end of period	\$ 1,739	\$ 1,739		

Overall, our same-store NOI for the year ended December 31, 2023 increased by approximately \$10.7 million, as compared to the prior year. Same store NOI increased primarily due to an increase in average occupancy and increases in rates charged to our residents, partially offset by an increase in operating expenses due to elevated labor costs.

## 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, 2023, 2022 and 2021 (in thousands, except per share data):

	Year Ended December 31,		
	2023	2022	2021
Net loss attributable to common stockholders	\$ (25,698)	\$ (1,453)	\$ (22,882)
Adjustments:			
Depreciation and amortization	\$ 51,234	\$ 54,242	\$ 50,417
Impairment provision	—	—	9,790
Gain on sale of real estate <sup>(1)</sup>	—	(6,282)	—
Gain on change of control of a joint venture <sup>(2)</sup>	—	(8,376)	—
FFO adjustments attributable to noncontrolling interests	(49)	821	(184)
FFO adjustments from unconsolidated entities <sup>(3)</sup>	—	—	947
FFO attributable to common stockholders	<u>25,487</u>	<u>38,952</u>	<u>38,088</u>
Straight-line rent adjustments <sup>(4)</sup>	1,737	1,209	1,231
Amortization of premium for debt investments	(17)	(42)	(42)
Realized loss on extinguishment of debt <sup>(5)</sup>	130	28	43
MFFO adjustments attributable to noncontrolling interests	(4)	12	1
MFFO attributable to common stockholders	<u>\$ 27,333</u>	<u>\$ 40,159</u>	<u>\$ 39,321</u>
Weighted average number of shares of common stock outstanding (basic and diluted)	<u>173,958</u>	<u>173,960</u>	<u>173,960</u>
Net loss per share (basic and diluted)	<u>\$ (0.15)</u>	<u>\$ (0.01)</u>	<u>\$ (0.13)</u>
FFO per share (basic and diluted)	<u>\$ 0.15</u>	<u>\$ 0.22</u>	<u>\$ 0.22</u>
MFFO per share (basic and diluted)	<u>\$ 0.16</u>	<u>\$ 0.23</u>	<u>\$ 0.23</u>

**FOOTNOTES:**

- (1) Management believes that adjusting for the gain on sale of real estate is appropriate because the adjustment is not reflective of our ongoing operating performance and, as a result, the adjustment better aligns results with management's analysis of operating performance.
- (2) Management believes that adjusting for the gain on change of control of a joint venture is appropriate because the adjustment is not reflective of our ongoing operating performance and, as a result, the adjustment better aligns results with management's analysis of operating performance.
- (3) This amount represents our share of the FFO or MFFO adjustments allowable under the NAREIT or IPA definitions, respectively, calculated using the HLBV method relating to our previously unconsolidated equity method investment in the Windsor Manor Joint Venture. Effective January 1, 2022, we owned a 100% controlling interest in Windsor Manor Joint Venture.
- (4) 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.
- (5) Management believes that adjusting for the realized loss 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.

## **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, 2023, the Company did not incur operating expenses in excess of the limitation.

See Item 8. “Financial Statements and Supplemental Data – Note 12. 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. 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.

*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 (when such impairments exist), 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 2023 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 2023 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 a projection or forecast that demonstrates continuing losses associated with the use of a real estate asset or (ii) a current expectation that, more likely than not, a real estate asset will be sold or otherwise disposed of significantly before the end of its previously estimated holding period. To assess if an asset group is potentially impaired, we compare the estimated current and projected undiscounted cash flows, including estimated net sales proceeds, of the asset group over its remaining useful life, or our estimated holding period if shorter, to the net carrying value of the asset group. Such cash flow projections consider factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors. In the event that the carrying value exceeds the undiscounted operating cash flows, we would recognize an impairment provision to adjust the carrying value of the asset group to the estimated fair value of the asset group.

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

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

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

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

Rental income and related revenues recorded on an accrual basis include rental income that is recorded on the straight-line basis over the terms of the leases for new leases and the remaining terms of existing leases for those acquired as part of a property acquisition. The straight-line method records the periodic average amount of base rent earned over the term of a lease, taking into account contractual rent increases over the lease term. We record the difference between base rent revenues earned and amounts due per the respective lease agreements, as applicable, as an increase or decrease to deferred rent and lease incentives in the accompanying consolidated balance sheets.

Rental income and related revenues also includes tenant reimbursements that represent amounts tenants are required to reimburse us for expenses incurred on behalf of the tenants, in accordance with the terms of the leases and are recognized in the period in which the related reimbursable expenses are incurred, such as real estate taxes, common area maintenance, and similar items.

We account for our resident agreements as a single performance obligation under ASC 606 given our overall promise to provide a series of stand-ready goods and services to our residents each month. Resident fees and services are recorded in the period in which the goods are provided and the services are performed and generally consist of (1) monthly rent, which covers occupancy of the residents' unit as well as basic services, such as utilities, meals and certain housekeeping services, and (2) service level charges, such as assisted living care, memory care and ancillary services. Resident agreements are generally short-term in nature, billed monthly in advance and cancellable 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, as well as impacts of volatile credit markets and a rising interest rate environment. Our management objectives related to interest rate risk are to limit the impact of interest rate changes on earnings and on operating cash flows. 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, 2023 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>
	2024	2025	2026	2027	2028	Thereafter		
Fixed rate debt	\$ 20,668	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 20,668	\$ 20,668
Weighted average interest rate on fixed rate debt	3.25 %	— %	— %	— %	— %	— %	3.25 %	
Variable rate debt	\$ 300	\$ 308	\$ 563,542	\$ —	\$ —	\$ —	\$ 564,150	\$ 564,141
Average interest rate on variable rate debt <sup>(2)</sup>	2.36% + Term SOFR	2.36% + Term SOFR	2.36% + Term SOFR	— %	— %	— %	2.36% + Term SOFR	

#### FOOTNOTES:

- (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, 2023. We determined market rates through discussions with our existing lenders by pricing our loans with similar terms and current rates and spreads.
- (2) Term SOFR is defined in the respective debt agreement.

Management estimates that a hypothetical one-percentage point increase in variable rates, compared to variable rates as of December 31, 2023, disregarding the impact of our interest rate protection in place, would increase interest expense by approximately \$5.6 million on an annualized basis based on variable rate debt outstanding as of December 31, 2023. 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 SOFR does not factor in a potential change in variable rate debt levels or interest rate protection provided by interest rate caps and swaps.

As of December 31, 2023, the Company's debt is comprised of approximately 3.5% in fixed rate debt, approximately 64.1% in variable rate debt with current interest rate protection and approximately 32.4% of unhedged variable rate debt. The remaining unhedged variable rate debt primarily relates to our 2023 Credit Facilities. 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, 2023 and 2022, 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, 2023, 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, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023 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 5 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, 2023. 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 a projection or forecast that demonstrates continuing 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 12, 2024

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>ASSETS</b>	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Real estate investment properties, net (including VIEs \$30,041 and \$30,906, respectively)	\$ 1,279,137	\$ 1,313,438
Cash (including VIEs \$1,345 and \$646, respectively)	54,097	69,504
Restricted cash (including VIEs \$8 and \$9, respectively)	1,791	4,070
Other assets (including VIEs \$17 and \$554, respectively)	19,127	36,868
Deferred rent, lease incentives and intangibles, net	11,386	13,423
Total assets	<u>\$ 1,365,538</u>	<u>\$ 1,437,303</u>
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Mortgages and other notes payable, net (including VIEs \$20,622 and \$21,142, respectively)	\$ 36,569	\$ 61,773
Credit facilities	541,840	546,100
Accounts payable and accrued liabilities (including VIEs \$1,411 and \$533, respectively)	31,322	30,270
Other liabilities (including VIEs \$216 and \$91, respectively)	10,475	7,469
Due to related parties	1,292	1,397
Total liabilities	<u>621,498</u>	<u>647,009</u>
Commitments and contingencies (Note 16)		
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, 187,958 shares issued and 175,274 shares outstanding	1,739	1,740
Capital in excess of par value	1,516,806	1,516,926
Accumulated income	74,710	100,408
Accumulated distributions	(847,120)	(829,307)
Accumulated other comprehensive income	(2,572)	(16)
Total stockholders' equity	<u>743,563</u>	<u>789,751</u>
Noncontrolling interest	477	543
Total equity	<u>744,040</u>	<u>790,294</u>
Total liabilities and equity	<u>\$ 1,365,538</u>	<u>\$ 1,437,303</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,		
	2023	2022	2021
<b>Revenues:</b>			
Rental income and related revenues	\$ 26,920	\$ 26,862	\$ 30,101
Resident fees and services	314,560	295,799	265,321
Total revenues	<u>341,480</u>	<u>322,661</u>	<u>295,422</u>
<b>Operating expenses:</b>			
Property operating expenses	235,524	226,845	197,562
General and administrative expenses	9,101	10,209	9,116
Asset management fees	13,856	14,074	15,733
Property management fees	15,438	14,703	12,981
Financing coordination fees	2,671	—	—
Impairment provision	—	—	9,790
Depreciation and amortization	51,234	54,242	50,417
Total operating expenses	<u>327,824</u>	<u>320,073</u>	<u>295,599</u>
Gain on sale of real estate	—	6,282	—
Operating income (loss)	<u>13,656</u>	<u>8,870</u>	<u>(177)</u>
<b>Other income (expense):</b>			
Interest and other income	3,113	4,663	720
Interest expense and loan cost amortization	(41,873)	(21,781)	(19,696)
Gain on change of control of a joint venture	—	8,376	—
Equity in earnings of unconsolidated entity	—	—	471
Total other expense	<u>(38,760)</u>	<u>(8,742)</u>	<u>(18,505)</u>
(Loss) income before income taxes	(25,104)	128	(18,682)
Income tax expense	(560)	(540)	(4,174)
Loss from continuing operations	(25,664)	(412)	(22,856)
Loss from discontinued operations	—	—	(10)
Net loss	<u>(25,664)</u>	<u>(412)</u>	<u>(22,866)</u>
<b>Less: Amounts attributable to noncontrolling interests</b>			
Net income from continuing operations	34	1,041	16
Net loss attributable to common stockholders	<u>\$ (25,698)</u>	<u>\$ (1,453)</u>	<u>\$ (22,882)</u>
<b>Net loss per share of common stock (basic and diluted)</b>			
Continuing operations	<u>\$ (0.15)</u>	<u>\$ (0.01)</u>	<u>\$ (0.13)</u>
Discontinued operations	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Weighted average number of shares of common stock outstanding (basic and diluted)	<u>173,958</u>	<u>173,960</u>	<u>173,960</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>2023</b>	<b>2022</b>	<b>2021</b>
Net loss	\$ (25,664)	\$ (412)	\$ (22,866)
Other comprehensive (loss) income:			
Unrealized (loss) gain on derivative financial instruments, net	(2,556)	(26)	40
Unrealized gain on derivative financial instruments of equity method investments	—	—	5
Total other comprehensive (loss) income	(2,556)	(26)	45
Comprehensive loss	(28,220)	(438)	(22,821)
Less: Comprehensive income attributable to noncontrolling interest	34	1,041	16
Comprehensive loss attributable to common stockholders	<u>\$ (28,254)</u>	<u>\$ (1,479)</u>	<u>\$ (22,837)</u>

See accompanying notes to consolidated financial statements.

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

	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, 2020	572	\$ 1,740	\$ 1,516,926	\$ 124,743	\$ (775,866)	\$ (35)	\$ 867,508	\$ 1,289	\$ 869,369
Net income (loss)	22	—	—	(22,882)	—	—	(22,882)	(6)	(22,866)
Other comprehensive income	—	—	—	—	—	45	45	—	45
Distribution to noncontrolling interest	(89)	—	—	—	—	—	—	(71)	(160)
Cash distributions declared (\$0.20480 per share)	—	—	—	—	(35,627)	—	(35,627)	—	(35,627)
Reclassification of redeemable noncontrolling interest	(505)	—	—	—	—	—	—	505	—
Balance at December 31, 2021	—	\$ 1,740	\$ 1,516,926	\$ 101,861	\$ (811,493)	\$ 10	\$ 809,044	\$ 1,717	\$ 810,761
Net (loss) income	—	—	—	(1,453)	—	—	(1,453)	1,041	(412)
Other comprehensive loss	—	—	—	—	—	(26)	(26)	—	(26)
Distributions to noncontrolling interest	—	—	—	—	—	—	—	(2,215)	(2,215)
Cash distributions declared (\$0.10240 per share)	—	—	—	—	(17,814)	—	(17,814)	—	(17,814)
Balance at December 31, 2022	—	\$ 1,740	\$ 1,516,926	\$ 100,408	\$ (829,307)	\$ (16)	\$ 789,751	\$ 543	\$ 790,294
Redemptions of common stock	(18)	(1)	(120)	—	—	—	(121)	—	(121)
Net (loss) income	—	—	—	(25,698)	—	—	(25,698)	34	(25,664)
Other comprehensive loss	—	—	—	—	—	(2,556)	(2,556)	—	(2,556)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(100)	(100)
Cash distributions declared (\$0.10240 per share)	—	—	—	—	(17,813)	—	(17,813)	—	(17,813)
Balance at December 31, 2023	—	\$ 1,739	\$ 1,516,806	\$ 74,710	\$ (847,120)	\$ (2,572)	\$ 743,563	\$ 477	\$ 744,040

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2023	2022	2021
<b>Operating activities:</b>			
Net loss	\$ (25,664)	\$ (412)	\$ (22,866)
Net loss from discontinued operations	—	—	(10)
Net loss from continuing operations	(25,664)	(412)	(22,856)
<b>Adjustments to reconcile net loss to net cash provided by operating activities:</b>			
Depreciation and amortization	51,234	54,242	50,417
Amortization of loan costs	2,440	2,769	2,193
Amortization of premium for debt investments	(17)	(42)	(42)
Amortization of discounts	(760)	(151)	—
Straight-line rent adjustments	1,737	1,209	1,231
Deferred income tax expense	—	—	3,632
Loss on extinguishment of debt	131	28	43
Impairment provision	—	—	9,790
Gain on sale of real estate	—	(6,282)	—
Gain on change of control of a joint venture	—	(8,376)	—
Other non-cash operating activities	4,140	984	1,304
<b>Changes in operating assets and liabilities:</b>			
Other assets	(1,933)	(640)	(1,326)
Deferred rent and lease incentives	—	—	(250)
Accounts payable and accrued liabilities	1,143	76	4,718
Other liabilities	(392)	450	(2,108)
Due to related parties	(105)	(9)	(374)
Net cash flows provided by operating activities – continuing operations	31,954	43,846	46,372
Net cash flows used in operating activities – discontinued operations	—	—	(10)
Net cash flows provided by operating activities	31,954	43,846	46,362
<b>Investing activities:</b>			
Acquisition of joint venture interest, net of cash acquired	—	(1,134)	—
Net proceeds from sale of real estate	—	36,655	—
Capital expenditures	(15,868)	(17,789)	(14,186)
Purchase of held-to-maturity securities	(4,880)	(24,209)	—
Proceeds from maturity of short-term securities	30,000	—	—
Other investing activities	—	291	35
Net cash provided by (used in) investing activities – continuing operations	9,252	(6,186)	(14,151)
Net proceeds from sale of real estate	—	—	7,402
Net cash provided by investing activities – discontinued operations	—	—	7,402
Net cash provided by (used in) investing activities	\$ 9,252	\$ (6,186)	\$ (6,749)
<b>Financing activities:</b>			
Distributions to stockholders	\$ (17,813)	\$ (17,814)	\$ (35,627)
Draws under credit facilities	190,770	45,000	238,000
Repayments on credit facilities	(190,770)	—	—
Principal payments on mortgages and other notes payable	(25,284)	(46,294)	(247,753)

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

	<b>Years Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Purchase of interest rate caps	(3,285)	(116)	—
Payment of loan costs	(12,449)	(328)	(2,404)
Distributions to noncontrolling interests	(100)	(2,215)	(160)
Other financing activities	39	—	1
Net cash flows used in financing activities	(58,892)	(21,767)	(47,943)
Net (decrease) increase in cash and restricted cash	(17,686)	15,893	(8,330)
Cash and restricted cash at beginning of period, including assets held for sale	73,574	57,681	66,011
Cash and restricted cash at end of period, including assets held for sale	<u>\$ 55,888</u>	<u>\$ 73,574</u>	<u>\$ 57,681</u>
<b>Supplemental disclosure of cash flow information (continuing operations):</b>			
Cash paid for interest, net	<u>\$ 34,900</u>	<u>\$ 17,020</u>	<u>\$ 17,615</u>
Cash paid for taxes, net	<u>\$ 687</u>	<u>\$ 801</u>	<u>\$ 690</u>

See accompanying notes to consolidated financial statements.



CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2023

1. Organization

CNL Healthcare Properties, Inc. (the “Company”) is a Maryland corporation that 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 (as amended, the “Advisory Agreement”). 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. As part of executing under possible strategic alternatives, the Company’s board of directors committed to a plan to sell 70 properties, which included medical office buildings, post-acute care facilities and acute care hospitals across the U.S., collectively (the “MOB/Healthcare Portfolio”), as well as several skilled nursing facilities. The Company completed the sale of the last of the 70 properties in April 2022.

As of December 31, 2023, the Company’s seniors housing portfolio was geographically diversified with properties in 26 states and consisted of interests in 70 properties, including 69 seniors housing communities 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.

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 variable interest entities (“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.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2023

2. Summary of Significant Accounting Policies (Continued)

*Grant Income* — In response to the coronavirus pandemic, the federal government and some states provided funds to providers of seniors housing communities. These funds were deemed federal/state governmental grants, provided that the recipients attested to and complied with certain terms and conditions. Grant income is recognized upon receipt of the funds and when all the conditions of the grant have been met. During the years ended December 31, 2023, 2022 and 2021, the Company recorded approximately \$1.0 million, \$4.3 million and \$0.5 million respectively, as other income in the accompanying consolidated statements of operations as all conditions of the grant had been met.

*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 (when such impairments exist), 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.

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 a projection or forecast that demonstrates continuing 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 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 the 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.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2023

2. Summary of Significant Accounting Policies (Continued)

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

For any disposal(s) qualifying as discontinued operations, the Company allocates interest expense and loan cost amortization that directly relates to either: (1) expense on mortgages and other notes payable collateralized by properties classified as discontinued operations; or (2) expense on the Company's credit facilities, which is allocated based on the value of the properties that are classified as discontinued operations if 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.

*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, 2023, 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.

*Held-to-Maturity Securities* — From time to time, the Company may invest in U.S. Treasuries, which it has designated as held-to-maturity ("HTM") securities, because the Company has both the ability and the intent to hold them until maturity. All assets classified as HTM are included within other assets in the consolidated balance sheets and reported at stated cost plus any premiums or discounts. Premiums or discounts are amortized or accreted as interest and other income in the consolidated statement of operations.

The Company evaluates its HTM securities on a quarterly basis to assess whether a decline in the fair value of an HTM security below the Company's amortized cost basis is an other-than-temporary impairment ("OTTI"). The presence of OTTI is based upon a fair value decline below a security's amortized cost basis and a corresponding adverse change in expected cash flows due to credit related factors. Impairment is considered other-than-temporary if the Company does not expect to recover the security's amortized cost basis.

*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, 2023 and 2022, the accumulated amortization of loan costs, after removal of fully amortized loan costs during 2023, was approximately \$1.2 million and \$8.9 million, respectively.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2023

2. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

The Company accounts for its resident agreements as a single performance obligation 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 cancellable 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.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2023

2. Summary of Significant Accounting Policies (Continued)

*Derivative Financial Instruments* — The Company, and through December 31, 2021, 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. As described in Note 4. “Acquisition,” effective January 1, 2022, the Company acquired the remaining ownership interest in the Windsor Manor Joint Venture and consolidated the Windsor Manor Joint Venture. Upon entry into a derivative, the Company 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 accounts for derivatives through the use of a fair value concept whereby the derivative positions are stated at fair value in other assets 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 variable-rate debt. Realized and unrealized gain (loss) on derivative financial instruments designated by the Company 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.

Through December 31, 2021, realized and unrealized gain (loss) on derivative financial instruments designated as cash flow hedges that were entered into by the Company’s equity method investment were reported as a component of the Company’s other comprehensive income (loss) in proportion to the Company’s ownership percentage in the investment, with reclassifications being included in equity in earnings (loss) of unconsolidated entity in the accompanying consolidated statements of operations.

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

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

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

The estimated fair value of accounts payable and accrued liabilities approximates the carrying value as of December 31, 2023 and 2022 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.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2023

2. Summary of Significant Accounting Policies (Continued)

*Share-Based Payments to Non-Employees* — In connection with the Expense Support Agreement described in Note 12. “Related Party Arrangements,” the Company previously agreed to issue restricted stock to the Advisor (“Restricted Stock”) 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. The Expense Support Agreement was terminated in June 2023.

*Net Income (Loss) per Share* — Net income (loss) per share is calculated based upon the weighted average number of shares of common stock outstanding (and excludes the Restricted Stock shares issued to the Advisor under the Expense Support Agreement) during the period in which the Company was operational. Refer to Note 12. “Related Party Arrangements” for additional information on the Restricted Stock shares.

*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.

*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.

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

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 the Company believes 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 the Company to change our judgment about the realizability of the related deferred tax asset, is included in the tax provision when such changes occur.

*Investment in Unconsolidated Entity* — Through December 31, 2021, the Company accounted for its investment in an unconsolidated joint venture under the equity method of accounting as the Company exercised significant influence, but did not maintain a controlling financial interest over this entity. The investment was 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 received on distributions and liquidation, the Company recorded 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 recognized 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 have recorded more or less equity in earnings (loss) than actual cash distributions received or an investment balance that was more or less than what the Company may have received in the event of an actual liquidation. The Company determined whether distributions were classified as returns on investment or returns of investment based on the nature of the distribution. As described in Note 4. "Acquisition," effective January 1, 2022, the Company acquired the remaining ownership interest in the Windsor Manor Joint Venture and consolidated the Windsor Manor Joint Venture. As of December 31, 2023 and 2022, the Company did not have an investment in an unconsolidated entity.

*Reclassifications* — Certain amounts in the prior years' consolidated financial statements and schedules have been reclassified to conform to the current year's presentation.

*Recent Accounting Pronouncements* — In December 2023, the FASB issued ASU No. 2023-09, "Improvements to Income Tax Disclosures (Topic 740)," which requires entities to disclose in their rate reconciliation table additional categories of information about federal, state and foreign income taxes as well as additional information about reconciling items if certain quantitative thresholds are met. This ASU will require all entities to disclose income taxes paid, net of refunds, disaggregated by federal (national), state and foreign taxes for annual periods and to disaggregate the information by jurisdiction based on a quantitative threshold. All entities are required to apply the guidance prospectively, with the option to apply it retrospectively. The ASU is effective for fiscal years beginning after 15 December 2024, with early adoption permitted. The Company has determined it will adopt this ASU on January 1, 2025, the adoption of which is not expected to have a material impact on the Company's consolidated results of operations or cash flows.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
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3. Revenue

The following table presents disaggregated revenue related to the Company’s resident fees and services during the years ended December 31, 2023, 2022 and 2021:

	Years Ended December 31,								
	Number of Units (Unaudited)			Revenues (in millions)			Percentage of Revenues		
	2023	2022	2021	2023	2022	2021	2023	2022	2021
<i>Resident fees and services:</i>									
Independent living	2,222	2,223	2,243	\$ 80.7	\$ 74.1	\$ 69.6	25.7 %	25.0 %	26.2 %
Assisted living	3,039	3,041	2,960	156.8	146.9	128.9	49.8	49.7	48.6
Memory care	932	932	904	61.5	60.6	53.2	19.5	20.5	20.1
Other revenues	—	—	—	15.6	14.2	13.6	5.0	4.8	5.1
	<u>6,193</u>	<u>6,196</u>	<u>6,107</u>	<u>\$ 314.6</u>	<u>\$ 295.8</u>	<u>\$ 265.3</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

4. Acquisition

As of December 31, 2021, the Company held an interest in five properties through a 75% interest in an unconsolidated joint venture (the “Windsor Manor Joint Venture”), which was accounted for as an equity method investment. Effective January 1, 2022, the Company acquired the remaining 25% interest in the Windsor Manor Joint Venture from its joint venture partner for approximately \$3.3 million. As a result, the Company obtained a 100% controlling interest in the Windsor Manor Joint Venture and consolidated the Windsor Manor Joint Venture. The acquisition was accounted for as an asset acquisition. As such, no goodwill was recognized in the acquisition.

As the Company previously held an equity method investment in the Windsor Manor Joint Venture, the acquisition resulted in a gain on change of control of a joint venture of approximately \$8.4 million, representing the difference between the fair market value and the carrying value of the equity method investment on the acquisition date.

The following table summarizes the fair market value of the assets and liabilities recorded as part of the acquisition, adjusted on a relative fair value basis for the difference between the consideration transferred and the fair market value of the net assets acquired, of the Windsor Manor Joint Venture as of the acquisition date (in thousands):

Equity method investment in unconsolidated joint venture	\$ 4,737
Consideration paid for additional 25% interest in joint venture	3,310
Total equity method investment and consideration paid	<u>\$ 8,047</u>
Cash	\$ 2,097
Restricted cash	79
Prepaid and other assets	64
Real estate assets	29,384
Intangibles	4,281
Total assets acquired	<u>35,905</u>
Accounts payable and accrued expenses	(953)
Other liabilities	(61)
Mortgages and notes payable	(18,468)
Total liabilities assumed	<u>(19,482)</u>
Net assets acquired	<u>\$ 16,423</u>



CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
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5. Real Estate Assets, net

The gross carrying amount and accumulated depreciation of the Company's real estate assets as of December 31, 2023 and 2022 are as follows (in thousands):

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Land and land improvements	\$ 137,393	\$ 136,416
Building and building improvements	1,502,579	1,495,552
Furniture, fixtures and equipment	113,034	105,784
Less: accumulated depreciation	(473,869)	(424,314)
Real estate investment properties, net	<u>\$ 1,279,137</u>	<u>\$ 1,313,438</u>

In July 2022, the Company entered into a purchase and sale agreement (the "Fieldstone Sale Agreement") for the sale of its Fieldstone Memory Care and Fieldstone at Pear Orchard properties (the "Fieldstone Properties") with an unrelated third party buyer. The Fieldstone at Pear Orchard property was indirectly owned through a consolidated joint venture. The Company completed the sale of the Fieldstone Properties in August 2022 and recorded a gain of approximately \$6.3 million, of which approximately \$5.4 million was attributable to common stockholders. Additionally, the Company paid a disposition fee of approximately \$0.1 million to the Advisor for the sale of these properties. The sale of the Fieldstone Properties did not cause a strategic shift in the Company's operations, and was not considered significant; therefore, these properties did not qualify as discontinued operations.

Depreciation expense on the Company's real estate investment properties, net was approximately \$50.1 million, \$50.7 million and \$50.0 million for the years ended December 31, 2023, 2022 and 2021, respectively.

6. Intangibles, net

Effective January 1, 2022, as described in Note 4. "Acquisition," the Company acquired the remaining 25% interest in the Windsor Manor Joint Venture from its joint venture partner. In-place lease intangibles of approximately \$4.3 million were included in the net assets acquired. The weighted-average amortization period on the in-place lease intangibles was approximately 1.4 years.

The gross carrying amount and accumulated amortization of the Company's intangible assets as of December 31, 2023 and 2022 are as follows (in thousands):

	<b>As of December 31,</b>	
	<b>2023 <sup>(1)</sup></b>	<b>2022 <sup>(1)</sup></b>
In-place lease intangibles	\$ 736	\$ 5,017
Less: accumulated amortization	(632)	(3,769)
Intangible assets, net	<u>\$ 104</u>	<u>\$ 1,248</u>

**FOOTNOTE:**

(1) Excludes approximately \$4.3 million and \$3.2 million of gross in-place lease intangibles and accumulated amortization related to fully amortized intangibles as of December 31, 2023 and 2022, respectively.

For the years ended December 31, 2023, 2022 and 2021, amortization on the Company's intangible assets was approximately \$1.1 million, \$3.5 million and \$0.4 million, respectively, all of which was included in depreciation and amortization in the Company's consolidated statements of operations.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
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6. Intangibles, net (Continued)

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, 2023 is as follows (in thousands):

2024	\$ 74
2025	30
2026	—
2027	—
2028	—
Thereafter	—
	\$ 104

7. Assets Held for Sale and Discontinued Operations

The Company received an unsolicited offer and entered into a purchase and sale agreement for a specialty hospital with an unrelated third party in March 2022 and classified this property as held for sale as of December 31, 2021. 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 specialty hospital to its estimated sales proceeds expected from the sale of the specialty hospital. As a result, the 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. In April 2022, the Company sold the specialty hospital, received net sales proceeds of \$8.3 million and did not record a gain or loss on sale for financial reporting purposes. The sale of the specialty hospital did not cause a strategic shift in the Company's operations, and was not considered significant; therefore, this property did not qualify as discontinued operations and the Company recorded all operating results from the specialty hospital as income or loss from continuing operations for all periods presented. The Company did not record any impairment provisions during the years ended December 31, 2023 and 2022.

Additionally, during the year ended December 31, 2021, the Company recorded loss from discontinued operations of approximately \$(0.01) million, because it classified the revenues and expenses of an unrelated property as discontinued operations in the accompanying consolidated statements of operations. This property was sold in January 2021. This property was identified for sale as part of the plan to sell the MOB/Healthcare portfolio described in Note 1. "Organization," and the Company determined that the sale of these properties represented a strategic shift in the Company's operations. The Company did not have any properties for which it had classified the revenues and expenses as discontinued operations during the years ended December 31, 2023 and 2022.

8. Held-to-Maturity Securities

The following presents the face value and carrying value of investments in short term securities by collateral type as of December 31, 2023 and 2022 (in thousands):

	U.S. Treasuries	
	As of December 31,	
	2023	2022
Amortized Cost Basis	\$ —	\$ 24,360
Gross unrealized losses	—	(27)
Fair Value	\$ —	\$ 24,333

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
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8. Held-to-Maturity Securities (Continued)

In determining the fair value of the Company's investments in short term securities, management's judgment was used to arrive at fair value that considered prices obtained from third-party pricing providers or broker quotes received using the bid price, which were both deemed indicative of market activity, and other applicable market data. The third-party pricing providers and brokers used pricing models that generally incorporated such factors as coupons, rate reset period, issuer, prepayment speeds, credit enhancements and expected life of the security. The Company categorized the fair value measurement of these assets as Level 2.

In evaluating investments in short term securities for other-than-temporary impairment, the Company determines whether there has been a significant adverse quarterly change in the cash flow expectations for a security. The Company compares the amortized cost of each security against the present value of expected future cash flows of the security. The Company also considers whether there has been a significant adverse change in the regulatory and/or economic environment as part of this analysis. If the amortized cost of the security is greater than the present value of expected future cash flows using the original yield as the discount rate, an other-than-temporary credit impairment has occurred and the credit loss is recognized in earnings. The Company did not record any other-than-temporary credit impairments during the years ended December 31, 2023 and 2022, as expected cash flows were greater than amortized cost for all short term securities held.

As of December 31, 2022, the Company's investments in short term securities had an estimated weighted average life remaining of approximately eight months. As of December 31, 2023, the Company did not have any investments in short term securities.

9. Operating Leases

As of December 31, 2023, the Company owned 15 seniors housing properties that have been leased to two 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, 2023, the total annualized property tax assessed on these properties was approximately \$3.3 million.

As of December 31, 2023, the Company's triple-net operating leases had a weighted average remaining lease term of 3.7 years based on annualized base rents expiring between 2025 and 2032. Our tenants hold options to extend the lease terms at certain properties for 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 to be received under non-cancellable operating leases for the next five years and thereafter, in the aggregate, as of December 31, 2023 (in thousands):

2024	\$	27,521
2025		20,892
2026		9,287
2027		9,556
2028		9,843
Thereafter		33,417
	\$	<u>110,516</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.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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10. Variable Interest Entities

As of December 31, 2022, the Company had net assets in two subsidiaries classified as VIEs. The Company determined it was the primary beneficiary and held a controlling financial interest in the subsidiaries due to its power to direct the activities that most significantly impact the economic performance of these 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 were included in the accompanying consolidated financial statements. The Company sold the property owned by one of these subsidiaries in August 2022, dissolved the subsidiary during the year ended December 31, 2023 and as of December 31, 2023, had one remaining subsidiary classified as a VIE.

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, 2023 and 2022, are as follows (in thousands):

	<b>As of December 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Assets:</b>		
Real estate investment properties, net	\$ 30,041	\$ 30,906
Cash	\$ 1,345	\$ 646
Restricted cash	\$ 8	\$ 9
Other assets	\$ 17	\$ 554
<b>Liabilities:</b>		
Mortgages and other notes payable, net	\$ 20,622	\$ 21,142
Accounts payable and accrued liabilities	\$ 1,411	\$ 533
Other liabilities	\$ 216	\$ 91

The Company's maximum exposure to loss as a result of its involvement with the one remaining VIE is limited to its net investment in this entity which totaled approximately \$8.7 million as of December 31, 2023. The Company's exposure is limited because of the non-recourse nature of the borrowings of the VIE.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
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11. Indebtedness

The following table provides details of the Company's indebtedness as of December 31, 2023 and 2022 (in thousands):

	<b>As of December 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Mortgages payable and other notes payable:</b>		
Fixed rate debt <sup>(1)</sup>	\$ 20,668	\$ 44,082
Variable rate debt <sup>(1)(2)(3)(7)</sup>	16,150	17,859
Premium <sup>(4)</sup>	—	17
Loan costs, net	(249)	(185)
Total mortgages and other notes payable, net	36,569	61,773
<b>Credit facilities:</b>		
Revolving Credit Facility <sup>(5)(6)(7)</sup>	—	133,000
Term Loan Facility <sup>(5)(6)(7)</sup>	—	265,000
2021 Term Loan Facility <sup>(5)(6)(7)</sup>	—	150,000
2023 Revolving Credit Facility <sup>(5)(6)(7)</sup>	198,000	—
2023 Term Loan Facility <sup>(5)(6)(7)</sup>	350,000	—
Loan costs, net related to Term Loan Facilities	(6,160)	(1,900)
Total credit facilities, net	541,840	546,100
Total indebtedness, net	\$ 578,409	\$ 607,873

**FOOTNOTES:**

- (1) As of December 31, 2023 and 2022, the Company's mortgages and other notes payable were collateralized by six and seven properties, respectively, with total carrying value of approximately \$51.0 million and \$92.7 million, respectively.
- (2) In connection with the acquisition of the 25% interest in the Windsor Manor Joint Venture, the Company consolidated the net assets of the joint venture effective January 1, 2022, including the debt associated with the properties, at fair value.
- (3) As of December 31, 2023 and 2022, the Company had interest rate protection through an interest rate cap with a notional amount of \$8.0 million and \$15.0 million, respectively. Refer to Note 13. "Derivative Financial Instruments" for additional information.
- (4) Premium was reflective of recording mortgage note payables assumed at fair value on the respective acquisition dates. The associated loan was paid in full during the year ended December 31, 2023.
- (5) During the years ended December 31, 2023 and 2022, the Company had interest rate protection through interest rate swaps and caps which as of December 31, 2023 and 2022, had notional amounts of \$367.0 million and \$355.0 million, respectively. Refer to Note 13. "Derivative Financial Instruments" for additional information.
- (6) As of December 31, 2023 and 2022, the Company had undrawn availability under the applicable revolving credit facility of approximately \$52.0 million and \$117.0 million, respectively, based on the commitments from lenders and the value of the properties in the unencumbered pool of assets supporting the loan. The Company reduced the commitment size of its Credit Facilities from \$665 million to \$600 million as part of the refinancing its 2023 Credit Facilities.
- (7) Term SOFR (as defined in the respective agreements governing our credit facilities and one mortgage loan) was approximately 5.45% and 4.46% as of December 31, 2023 and 2022, respectively.

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

The following table details the Company's mortgages and other notes payable as of December 31, 2023 and 2022 (in thousands):

Property and Loan Type	Interest Rate at December 31, 2023	Payment Terms	Maturity Date <sup>(1)</sup>	December 31,	
				2023	2022
Watercrest at Mansfield; Mortgage Loan	4.68% per annum	Monthly principal and interest payments based on a total payment of \$143,330	6/1/2023	\$ —	\$ 22,854
Watercrest at Katy; Mortgage Loan	3.25% per annum	Monthly principal and interest payments based on a 25-year amortization schedule	11/15/2024	20,668	21,228
Total fixed rate debt				20,668	44,082
Windsor Manor Communities; Mortgage Loan <sup>(2)</sup>	Term SOFR + 0.10% + 2.50% per annum	Monthly principal and interest payments based on a 25-year amortization schedule	2/28/2026	16,150	17,859
Total variable rate debt				16,150	17,859
Total mortgages and other notes payable				\$ 36,818	\$ 61,941

**FOOTNOTES:**

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

(2) This loan has two one-year extension options.

In January 2023, the Company used a portion of its cash on hand to make a \$1.4 million unscheduled principal payment on a mortgage loan collateralized by five properties. In June 2023, the Company refinanced the remaining \$16.1 million balance relating to this mortgage loan with the existing lender. This mortgage loan had a LIBOR based benchmark rate and was scheduled to mature in February 2024. In connection with the refinancing, the Company amended certain terms and transitioned its benchmark rate from LIBOR to Term SOFR effective June 30, 2023, extended the maturity date from February 2024 to February 2026 and obtained two one-year extension options. The Company paid the Advisor a financing coordination fee of approximately \$0.2 million related to this transaction. Refer to Note 12. "Related Party Arrangements" for additional information. In March 2023, the Company used cash on hand and repaid a mortgage loan of approximately \$22.8 million collateralized by one property in advance of its scheduled maturity of June 2023. In addition to the payments described above, during the year ended December 31, 2023, the Company repaid approximately \$1.1 million of scheduled principal payments related to its secured mortgage notes.

The \$548 million outstanding under the unsecured credit facilities consisted of a Revolving Credit Facility, which had an original maturity date of May 2023 with a one-year extension option, the Term Loan Facility and the 2021 Term Loan Facility that matured in May 2024 (collectively, the "Credit Facilities"). In January 2023, the Company exercised its one-year extension option and extended the maturity date of the Revolving Credit Facility from May 2023 to May 2024. In December 2023, the Company refinanced the \$548 million outstanding under the Credit Facilities in advance of their May 2024 maturity. Even though the Company reduced the total commitment size from \$665 million to \$600 million, the Company maintained the same \$548 million outstanding as part of the refinancing. The new facility consists of a \$350 million senior unsecured term loan (the "2023 Term Loan") and a \$250 million senior unsecured revolving credit facility (the 2023 Revolving Credit Facility"), collectively, the "2023 Credit Facilities". The 2023 Credit Facilities require interest only payments through their maturity date of May 31, 2026, bear interest based on term SOFR plus 10 basis points plus an applicable margin of 225 basis points. Each of the 2023 Revolving Credit Facility and 2023 Term Loan Facility is pre-payable at any time in whole or part without fees or penalties. The Company paid the Advisor a financing coordination fee of approximately \$6.0 million. Refer to Note 12. "Related Party Arrangements" for additional information.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
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YEAR ENDED DECEMBER 31, 2023

11. Indebtedness (Continued)

The Company is required to pay an unused fee of 0.20% of the unused portion of the commitment amount under the 2023 Revolving Credit Facility if usage is less than 50% and an unused fee of 0.15% if usage under such facility is greater than 50%. The Company is also required to enter into interest rate cap or swap agreements with respect to a portion of the aggregate outstanding principal amount under the 2023 Credit Facilities. In December 2023, the Company entered into a two-year interest swap agreement with a weighted average swap price of 4.4 % to hedge a portion of the unsecured 2023 Credit Facilities.

As part of the Company's hedging strategy, the Company entered into interest rate cap agreements to hedge a portion of its variable rate debt. During the year ended December 31, 2023, the Company paid approximately \$3.2 million to purchase two short-term interest rate caps with a combined notional value of \$428.0 million, a strike price of 3.5%, and maturity dates during the year ended December 31, 2023, to hedge the majority of its variable rate interest exposure relating to the Credit Facilities and \$16.3 million of variable rate secured indebtedness that the Company refinanced in June 2023. During the year ended December 31, 2023, the Company collected a combined \$3.2 million from the interest rate cap counterparties related to its two interest rate caps which are included in interest expense and loan costs amortization in the accompanying consolidated statements of operations. In December 2023, the Company paid approximately \$0.1 million to purchase a short-term interest rate cap with a notional value of \$8.0 million, a strike price of 3.5%, and a maturity date of July 2024 to hedge a portion of its interest rate exposure relating to \$16.2 million of variable rate secured indebtedness.

During the year ended December 31, 2022, the Company repaid approximately \$46.3 million, which included \$1.8 million of scheduled repayments on its mortgages and other notes payable and the June 2022 refinance of approximately \$44.5 million of secured indebtedness, consisting of debt collateralized by five properties. The Company refinanced the debt maturity, added the five properties to the borrowing base of the unsecured Credit Facilities and used \$45.0 million from amounts available under the unsecured Revolving Credit Facility to repay the secured indebtedness.

The following is a schedule of future principal payments for the Company's total indebtedness for the next five years and thereafter, in the aggregate, as of December 31, 2023 (in thousands):

2024	\$ 20,968
2025	308
2026	563,542
2027	—
2028	—
Thereafter	—
	\$ 584,818

The following table provides the details of the fair market value and carrying value of the Company's indebtedness as of December 31, 2023 and 2022 (in millions):

	December 31, 2023		December 31, 2022	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Mortgages and other notes payable, net	\$ 36.8	\$ 36.6	\$ 60.8	\$ 61.8
Credit facilities, net	\$ 548.0	\$ 541.8	\$ 548.0	\$ 546.1

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.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2023

11. Indebtedness (Continued)

The 2023 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 2023 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 70% of adjusted FFO (as defined per the 2023 Credit Facilities) and the minimum amount of distributions required to maintain the Company's REIT status. As of December 31, 2023, the Company was in compliance with all financial covenants related to its 2023 Credit Facilities.

Generally, the loan agreements for the Company's mortgage loans contain customary financial covenants and ratios; including (but not limited to) the following: debt service coverage ratio, minimum occupancy levels, limitations on incurrence of additional indebtedness, etc. The loan agreements also contain customary events of default and remedies for the lenders. As of December 31, 2023, the Company was in compliance with all financial covenants related to its mortgage loans.

12. 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, 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. 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. In addition, the Advisor is entitled to receive a monthly asset management fee equal to 0.8% per annum (which was reduced in May 2021 from 1.0% per annum), 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 June 2023, the Company renewed its Advisory Agreement with the Advisor for an additional two years through June 2025 and amended the terms of its advisory agreement with the Advisor. The amendment (i) revised the defined term "real estate asset value" from the greater of to the lesser of cost basis or the current independent valuation (before non-cash reserves and depreciation), and (ii) subordinated 0.05% of the 0.80% per annum asset management fee paid by the Company to the Advisor (based on the monthly average of the sum of the Company's and the Operating Partnership's respective daily real estate asset value). The subordinated fee will be forfeited and not paid to the Advisor in the event the Company does not achieve certain performance thresholds during certain measurement periods.



CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2023

12. Related Party Arrangements (Continued)

The Company will pay the Advisor, if a substantial amount of services are provided as determined by the Company's independent directors, a disposition fee in an amount equal to 0.8% of (a) the gross market capitalization of the Company upon the occurrence of a listing on a national securities exchange, (b) the gross consideration paid to the Company or its stockholders upon the occurrence of any other liquidity event of the Company (including the sale of the Company or a portion thereof), or (c) the gross sales price upon the sale or transfer of one or more of its properties. The disposition fee was decreased from 1.0% to 0.8% effective May 2021. 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 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.

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. The Company did not incur operating expenses in excess of the Limitation during the Expense Years ended December 31, 2023, 2022 and 2021.

*Expense Support and Restricted Stock Agreement* — Through June 8, 2023, pursuant to the expense support and restricted stock agreement by and between the Company and the Advisor (as amended, the "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 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 Expense Support Agreement, have been permanently settled and the Company has no further obligation to pay such amounts. The Expense Support Agreement was terminated effective June 8, 2023. No expense support was received for the years ended December 31, 2023, 2022 and 2021.

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, 2023, 2022 and 2021. As of December 31, 2023, approximately \$13.6 million of asset management fees had been settled in exchange for approximately 1.3 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, 2023.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2023

12. Related Party Arrangements (Continued)

Cash distributions paid on Restricted Stock shares for the years ended December 31, 2023, 2022 and 2021 were \$0.136 million, \$0.136 million and \$0.273 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. The termination of the Expense Support Agreement in June 2023 does not impact the previously issued Restricted Stock.

*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, 2023, 2022 and 2021, the Company incurred approximately \$0.9 million in such fees. These amounts are included in general and administrative expenses in the accompanying consolidated statements of operations.

*Co-Venture Partners* — The Company incurs operating expenses which, in general, relate to administration of the Company and its subsidiaries on an ongoing basis.

The expenses and fees incurred by and reimbursable to the Company's related parties, including amounts included in income from discontinued operations, for the years ended December 31, 2023, 2022 and 2021, and related amounts unpaid as of December 31, 2023 and 2022 are as follows (in thousands):

	Years Ended December 31,			Unpaid amounts as of <sup>(1)</sup>	
	2023	2022	2021	December 31, 2023	December 31, 2022
Reimbursable expenses:					
Operating expenses <sup>(2)</sup>	\$ 2,721	\$ 3,056	\$ 2,972	\$ 180	\$ 238
	2,721	3,056	2,972	180	238
Investment services fee <sup>(3)</sup>	—	60	—	—	—
Disposition fee <sup>(4)</sup>	—	195	—	—	—
Financing coordination fees <sup>(5)</sup>	6,163	—	1,500	—	—
Asset management fees	13,856	14,074	15,740	1,112	1,159
	\$ 22,740	\$ 17,385	\$ 20,212	\$ 1,292	\$ 1,397

**FOOTNOTES:**

- (1) Amounts are recorded as due to related parties in the accompanying consolidated balance sheets.
- (2) Amounts are recorded as general and administrative expenses in the accompanying consolidated statements of operations unless such amounts represent prepaid expenses, which are capitalized in the accompanying consolidated balance sheets.
- (3) For the year ended December 31, 2022, the Company incurred approximately \$0.1 million in investment services fees, all of which was capitalized and included in real estate assets, net in the accompanying consolidated balance sheets. For the years ended December 31, 2023 and 2021, the Company did not incur any investment services fees.
- (4) Amounts are recorded as a reduction to gain on sale of real estate in the accompanying consolidated statements of operations.
- (5) For the year ended December 31, 2023, the Company incurred financing coordination fees of approximately \$6.2 million, related to the refinancing of the Credit Facilities and a loan associated with certain operating properties, of which approximately \$2.7 million was expensed in the accompanying consolidated statement of operations, approximately \$3.5 million were capitalized as loan costs and reflected in other assets or in credit facilities in the accompanying consolidated balance sheets. For the year ended December 31, 2021, the Company incurred financing coordination fees of approximately \$1.5 million, all of which were capitalized as loan costs and reflected in credit facilities in the accompanying consolidated balance sheets. The Company did not incur any financing coordination fees for the year ended December 31, 2022.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2023

13. Derivative Financial Instruments

The following summarizes the terms of the Company's interest rate caps and swaps and the corresponding asset (liability) as of December 31, 2023 and 2022 (in thousands):

Notional Amount <sup>(1)</sup>	Strike	Credit Spread <sup>(2)</sup>	Trade	Forward	Maturity Date	Fair Value Asset (Liability) as of December 31,	
						2023	2022
<b>Caps</b>							
\$ 15,000	3.50 %	2.60 %	12/28/2022 2	12/28/2022 2	7/1/2023	\$ —	\$ 99
\$ 8,000	3.50 %	2.60 %	6/29/2023	7/3/2023	1/1/2024	\$ —	\$ —
\$ 8,000	3.50 %	2.60 %	12/20/2022 3	1/2/2024	7/1/2024	\$ 63	\$ —
<b>Swaps</b>							
\$ 267,000	4.40 %	2.35 %	12/7/2023	12/1/2023	12/1/2025	\$ (1,678)	\$ —
\$ 80,000	4.54 %	2.35 %	12/8/2023	12/1/2023	12/1/2025	\$ (706)	\$ —
\$ 20,000	4.54 %	2.35 %	12/8/2023	12/1/2023	12/1/2025	\$ (177)	\$ —

**FOOTNOTE:**

(1) Amounts related to the interest rate caps and swaps held by the Company are recorded at fair value and included in other assets or other liabilities in the accompanying consolidated balance sheets.

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

The following summarizes the gross and net presentation of amounts related to the Company's derivative financial instruments as of December 31, 2023 and 2022 (in thousands):

Notional Amount	Gross and net amounts of asset (liability) as of December 31, 2023			Gross amounts as of December 31, 2023		
	Gross Amount	Offset Amount	Net Amount	Financial Instruments	Cash Collateral	Net Amount
<b>Caps</b>						
\$ 8,000	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
\$ 8,000	\$ 63	\$ —	\$ 63	\$ 63	\$ —	\$ 63
<b>Swaps</b>						
\$ 267,000	\$ (1,678)	\$ —	\$ (1,678)	\$ (1,678)	\$ —	\$ (1,678)
\$ 80,000	\$ (706)	\$ —	\$ (706)	\$ (706)	\$ —	\$ (706)
\$ 20,000	\$ (177)	\$ —	\$ (177)	\$ (177)	\$ —	\$ (177)

Notional Amount	Gross and net amounts of asset (liability) As of December 31, 2022			Gross amounts as of December 31, 2022		
	Gross Amount	Offset Amount	Net Amount	Financial Instruments	Cash Collateral	Net Amount
<b>Cap</b>						
\$ 15,000	\$ 99	\$ —	\$ 99	\$ 99	\$ —	\$ 99

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2023

13. Derivative Financial Instruments (Continued)

Although the Company has determined that the majority of the inputs used to value its derivative financial instruments fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by the Company and its counterparties. The Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative financial positions and has determined that the credit valuation adjustments on the overall valuation adjustments are not significant to the overall valuation of its derivative financial instruments. As a result, the Company determined that its derivative financial instruments valuation in its entirety is classified in Level 2 of the fair value hierarchy. Determining fair value requires management to make certain estimates and judgments. Changes in assumptions could have a positive or negative impact on the estimated fair values of such instruments which could, in turn, impact the Company's results of operations.

14. Equity

**Stockholders' Equity:**

*Distributions* — In March 2022, the Board approved a reduction in the quarterly distribution rate from \$0.0512 per share to \$0.0256 per share starting with the first quarter 2022 distribution. For the years ended December 31, 2023, 2022 and 2021, the Company declared cash distributions of \$17.8 million, \$17.8 million and \$35.6 million, respectively, and all of which were paid in cash to stockholders.

The tax composition of the Company's distributions declared for the years ended December 31, 2023, 2022 and 2021 were as follows:

	<b>Years Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Ordinary income	— %	— %	43.82 %
Return of capital	100.00 %	100.00 %	56.18 %

*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, 2023, 2022 and 2021 (in thousands):

<b>Derivative financial instruments</b>	<b>Gain (loss) recognized in other comprehensive loss on derivative financial instruments</b>			<b>Location of gain (loss) reclassified into earnings</b>	<b>Gain (loss) reclassified from accumulated other comprehensive income (loss) into earnings</b>		
	<b>Years Ended December 31,</b>				<b>Years Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>		<b>2023</b>	<b>2022</b>	<b>2021</b>
Interest rate swaps	\$ (2,561)	\$ —	\$ —	Interest expense and loan cost amortization	\$ —	\$ —	\$ —
Interest rate caps	5	(26)	40	Interest expense and loan cost amortization	(3,325)	(82)	(32)
Interest rate cap held by unconsolidated joint venture	—	—	5	Equity in earnings of unconsolidated entity	—	—	(5)
Total	\$ (2,556)	\$ (26)	\$ 45		\$ (3,325)	\$ (82)	\$ (37)

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2023

15. Income Taxes

For the years ended December 31, 2023, 2022 and 2021, 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, 2023, 2022 and 2021, excluding amounts related to discontinued operations, were as follows (in thousands):

	Years Ended December 31,		
	2023	2022	2021
<b>Current:</b>			
Federal	\$ (12)	\$ (10)	\$ (10)
State	(548)	(530)	(532)
Total current expense	(560)	(540)	(542)
<b>Deferred:</b>			
Federal	—	—	(3,379)
State	—	—	(253)
Total deferred expense	—	—	(3,632)
Income tax expense	\$ (560)	\$ (540)	\$ (4,174)

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, 2023 and 2022 are as follows:

	2023	2022
Carryforwards of net operating loss	\$ 20,895	\$ 18,647
Other	931	1,044
Valuation allowance	(21,826)	(19,691)
Deferred tax assets, net	\$ —	\$ —

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

	Years Ended December 31,					
	2023		2022		2021	
Tax (expense) benefit computed at federal statutory rate	\$ 5,272	21.00 %	\$ (27)	(21.00)%	\$ 3,923	21.00 %
Impact of REIT election	(3,893)	(15.50)	5,714	4,465.61	1,575	8.43
State income tax expense net of federal benefit	196	0.78	630	492.27	706	3.78
Effect of change in valuation allowance	(2,135)	(8.51)	(6,857)	(5,358.79)	(10,378)	(55.55)
Income tax expense	\$ (560)	(2.23)%	\$ (540)	(421.91)%	\$ (4,174)	(22.34)%

The Company's TRS entities had net operating loss carryforwards for federal and state purposes of approximately \$78.3 million and \$70.8 million as of December 31, 2023 and 2022, respectively, to offset future taxable income. If not utilized, the federal net operating loss carryforwards will begin to expire in 2032, with \$64.4 million having an indefinite carryforward period. State net operating loss carryforwards are currently subject to various expirations. The Company analyzed its material tax positions and determined that it has not taken any uncertain tax positions. The tax years 2020 and forward remain subject to examination by taxing authorities.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2023

16. 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.

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 12. “Related Party Arrangements” for information on distributions declared related to these Restricted Stock shares.

17. Concentration of Credit Risk

For the years ended December 31, 2023, 2022 and 2021, the Company had a geographical concentration accounting for 10% or more of its total revenues, as follows:

	Type of Concentration	Years Ended December 31,		
		2023	2022	2021
State of Texas <sup>(1)</sup>	Geographical	21.2 %	20.6 %	21.3 %

**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.

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS  
YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021 (in thousands)

Year	Description	Balance at Beginning of Year	Charged to Costs and Expenses	Charged to Other Accounts	Balance at End of Year
2021	Deferred tax asset valuation allowance	\$ (1,464)	\$ (10,368)	\$ —	\$ (11,832)
	Allowance for credit losses	(3,023)	(1,278)	1,161	(3,140)
		<u>\$ (4,487)</u>	<u>\$ (11,646)</u>	<u>\$ 1,161</u>	<u>\$ (14,972)</u>
2022	Deferred tax asset valuation allowance	\$ (11,832)	\$ (6,870)	\$ (989)	\$ (19,691)
	Allowance for credit losses	(3,140)	(902)	2,439	(1,603)
		<u>\$ (14,972)</u>	<u>\$ (7,772)</u>	<u>\$ 1,450</u>	<u>\$ (21,294)</u>
2023	Deferred tax asset valuation allowance	\$ (19,691)	\$ (2,135)	\$ —	\$ (21,826)
	Allowance for credit losses	(1,603)	(814)	1,514	(903)
		<u>\$ (21,294)</u>	<u>\$ (2,949)</u>	<u>\$ 1,514</u>	<u>\$ (22,729)</u>

**CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES**  
**SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION**  
**AS OF DECEMBER 31, 2023 (in thousands)**

Property/Location	Initial Costs			Costs Capitalized Subsequent to Acquisition			Gross Amounts at which Carried at Close of Period <sup>(2)</sup>			Date of Construction	Date Acquired	Life on which depreciation in latest income statement is computed			
	Encumbrances	Land & Land Improvements	Building and Building Improvements	Land & Land Improvements	Building and Building Improvements	Construction in Process	Land & Land Improvements	Building and Building Improvements	Construction in Process				Accumulated Depreciation	Total	
Primrose Retirement Community of Casper, Wyoming	\$ —	\$ 1,910	\$ 16,310	\$ 61	\$ —	\$ 364	\$ —	\$ 1,971	\$ 16,674	\$ —	\$ 18,645	\$ (5,278)	2004	2/16/2012	(1)
Primrose Retirement Community of Grand Island, Nebraska	—	719	12,140	83	—	—	802	12,140	—	—	12,942	(3,993)	2005	2/16/2012	(1)
Primrose Retirement Community of Mansfield, Ohio	—	650	16,720	230	83	—	880	16,803	—	—	17,683	(5,562)	2007	2/16/2012	(1)
Primrose Retirement Community of Marion, Ohio	—	889	16,305	126	18	—	1,015	16,323	—	—	17,338	(5,281)	2006	2/16/2012	(1)
Sweetwater Retirement Community Billings, Montana	—	1,578	14,205	20	34	—	1,598	14,239	—	—	15,837	(4,480)	2006	2/16/2012	(1)
HarborChase of Villages Crossing Lady Lake, Florida ("The Villages")	—	2,165	—	1,036	15,573	—	3,201	15,573	—	—	18,774	(4,248)	2013	8/29/2012	(1)
Primrose Retirement Community Cottages Aberdeen, South Dakota	—	311	3,794	—	6	—	311	3,800	—	—	4,111	(1,158)	2005	12/19/2012	(1)
Primrose Retirement Community of Council Bluffs, Iowa ("Omaha")	—	1,144	11,117	60	20	—	1,204	11,137	—	—	12,341	(3,497)	2008	12/19/2012	(1)
Primrose Retirement Community of Decatur, Illinois	—	513	16,706	105	188	—	618	16,894	—	—	17,512	(5,080)	2009	12/19/2012	(1)
Primrose Retirement Community of Lima, Ohio	—	944	17,115	8	26	—	952	17,141	—	—	18,093	(5,130)	2006	12/19/2012	(1)
Primrose Retirement Community of Zanesville, Ohio	—	1,184	17,292	—	95	—	1,184	17,387	—	—	18,571	(5,214)	2008	12/19/2012	(1)
Capital Health of Saphirov Manor, Baltimore, Maryland	—	2,319	19,444	7	323	—	2,326	19,767	—	—	22,093	(5,822)	2011	12/21/2012	(1)
Curry House Assisted Living & Memory Care, Cadillac, Michigan	—	995	11,072	45	466	—	1,040	11,538	—	—	12,578	(3,342)	1966	12/21/2012	(1)
Tranquility at Fredericktowne, Frederick, Maryland	—	808	14,291	41	6,723	—	849	21,014	—	—	21,863	(6,714)	2000	12/21/2012	(1)
Brookridge Heights Assisted Living & Memory Care, Marquette, Michigan	—	595	11,339	137	5,230	—	732	16,569	—	—	17,301	(5,462)	1998	12/21/2012	(1)
Woodholme Gardens Assisted Living & Memory Care, Pikesville, Maryland ("Baltimore")	\$ —	\$ 1,603	\$ 13,472	\$ 65	\$ 121	\$ —	\$ 1,668	\$ 13,593	\$ —	\$ 15,261	\$ (4,052)	\$ —	2010	12/21/2012	(1)



**CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES**  
**SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION (CONTINUED)**  
**AS OF DECEMBER 31, 2023 (in thousands)**

Property/Location	Initial Costs			Costs Capitalized Subsequent to Acquisition			Gross Amounts at which Carried at Close of Period <sup>(1)</sup>			Date of Construction	Accumulated Depreciation	Life on which depreciation in latest income statement is computed		
	Encumbrances	Land & Land Improvements	Building and Building Improvements	Land & Land Improvements	Building and Building Improvements	Construction in Process	Land & Land Improvements	Building and Building Improvements	Construction in Process				Total	
HarborChase of Jasper Jasper, Alabama	—	355	6,358	23	96	—	378	6,454	—	6,832	(1,788)	1998	7/31/2013	(1)
Raider Ranch Lubbock, Texas	—	4,992	48,818	793	13,679	—	5,785	62,497	—	68,282	(16,368)	2009	8/29/2013	(1)
Town Village Oklahoma City, Oklahoma	—	1,020	19,847	185	1,863	—	1,205	21,710	—	22,915	(6,107)	2004	8/29/2013	(1)
Prestige Senior Living Beaverton Hills Beaverton, Oregon	—	1,387	10,324	13	91	—	1,400	10,415	—	11,815	(2,818)	2000	12/2/2013	(1)
Prestige Senior Living High Desert Bend, Oregon	—	835	11,252	17	430	—	852	11,682	—	12,534	(3,251)	2003	12/2/2013	(1)
MorningStar of Billings Billings, Montana	—	4,067	41,373	84	641	—	4,151	42,014	—	46,165	(11,994)	2009	12/2/2013	(1)
MorningStar of Boise Boise, Idaho	—	1,663	35,752	309	372	—	1,972	36,124	—	38,096	(9,791)	2007	12/2/2013	(1)
Prestige Senior Living Huntington Terrace Gresham, Oregon ("Portland")	—	1,236	12,083	2	485	—	1,238	12,568	—	13,806	(3,378)	2000	12/2/2013	(1)
MorningStar of Idaho Falls Idaho Falls, Idaho	—	2,006	40,397	141	443	—	2,147	40,840	—	42,987	(11,260)	2009	12/2/2013	(1)
Prestige Senior Living Arbor Place Medford, Oregon	—	355	14,083	17	939	—	372	15,022	—	15,394	(3,930)	2003	12/2/2013	(1)
Prestige Senior Living Orchard Hills Salem, Oregon	—	545	15,544	134	288	—	679	15,832	—	16,511	(4,225)	2002	12/2/2013	(1)
Prestige Senior Living Southern Hills Salem, Oregon	—	653	10,753	55	193	—	708	10,946	—	11,654	(2,961)	2001	12/2/2013	(1)
MorningStar of Sparks Sparks, Nevada	—	3,986	47,968	16	1,194	—	4,002	49,162	—	53,164	(13,427)	2009	12/2/2013	(1)
Prestige Senior Living Five Rivers Tillamook, Oregon	—	1,298	14,064	18	575	—	1,316	14,639	—	15,955	(4,131)	2002	12/2/2013	(1)
Prestige Senior Living Riverwood Tualatin, Oregon ("Portland")	—	1,028	7,429	12	238	—	1,040	7,667	—	8,707	(2,140)	1999	12/2/2013	(1)
Prestige Senior Living Auburn Meadows Allyn, Washington ("Seattle")	—	2,537	17,261	214	1,626	—	2,751	18,887	—	21,638	(4,981)	2003/2010	2/3/2014	(1)
Prestige Senior Living Bridgewood Vancouver, Washington ("Portland")	\$	1,603	\$ 18,172	\$ 10	\$ 727	\$ —	\$ 1,613	\$ 18,899	\$ —	\$ 20,512	\$ (4,893)	2001	2/3/2014	(1)
Prestige Senior Living Monticello Park Longview, Washington	—	1,981	23,056	1	552	—	1,982	23,608	—	25,590	(6,111)	2001/2010	2/3/2014	(1)
Prestige Senior Living Rosemont Yelm, Washington	—	668	14,564	14	719	—	682	15,283	—	15,965	(3,881)	2004	2/3/2014	(1)

**CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES**  
**SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION (CONTINUED)**  
**AS OF DECEMBER 31, 2023 (in thousands)**

Property/Location	Initial Costs			Costs Capitalized Subsequent to Acquisition			Gross Amounts at which Carried at Close of Period <sup>(1)</sup>			Date Acquired	Life on which depreciation in latest income statement is computed							
	Encumbrances	Land & Land Improvements	Building and Building Improvements	Land & Land Improvements	Building and Building Improvements	Construction in Process	Land & Land Improvements	Building and Building Improvements	Construction in Process			Accumulated Depreciation						
Wellmore of Tega Cay Tega Cay, South Carolina ("Charlotte")	—	2,445	—	2,760	23,497	—	5,205	23,497	—	28,702	(6,671)	2015	2/7/2014	(1)				
Isle at Cedar Ridge Cedar Park, Texas ("Austin")	—	1,525	16,277	—	833	—	1,525	17,110	—	18,635	(4,663)	2011	2/28/2014	(1)				
Prestige Senior Living West Hills Corvallis, Oregon	—	842	12,603	11	778	—	853	13,381	—	14,234	(3,535)	2002	3/3/2014	(1)				
HarborChase of Plainfield Plainfield, Illinois	—	1,596	21,832	160	351	—	1,756	22,183	—	23,939	(5,844)	2010	3/28/2014	(1)				
Legacy Ranch Alzheimer's Special Care Center Midland, Texas	—	917	9,982	34	219	—	951	10,201	—	11,152	(2,719)	2012	3/28/2014	(1)				
The Springs Alzheimer's Special Care Center San Angelo, Texas	—	595	9,658	9	206	—	604	9,864	—	10,468	(2,650)	2012	3/28/2014	(1)				
Isle at Watercrest - Bryan Bryan, Texas	—	3,223	40,581	70	3,037	—	3,293	43,618	—	46,911	(11,671)	2011	4/21/2014	(1)				
Isle at Watercrest - Mansfield Mansfield, Texas ("Dallas/Fort Worth")	—	997	24,635	4	478	—	1,001	25,113	—	26,114	(6,398)	2011	5/5/2014	(1)				
Watercrest at Katy Katy, Texas ("Houston")	20,668	4,000	—	140	33,998	—	4,140	33,998	—	38,138	(6,507)	2016	6/27/2014	(1)				
Watercrest at Mansfield Mansfield, Texas ("Dallas/Fort Worth")	—	2,191	42,740	49	1,009	—	2,240	43,749	—	45,989	(11,214)	2010	6/30/2014	(1)				
HarborChase of Shorewood Shorewood, Wisconsin ("Milwaukee")	—	2,200	—	304	19,890	—	2,504	19,890	—	22,394	(4,280)	2015	7/8/2014	(1)				
Fairfield Village of Layton Layton, Utah ("Salt Lake City")	—	5,217	54,167	374	761	—	5,591	54,928	—	60,519	(14,144)	2010	11/20/2014	(1)				
Primrose Retirement Center of Anderson Anderson, Indiana ("Muncie")	—	1,342	19,083	4	33	—	1,346	19,116	—	20,462	(4,635)	2008	5/29/2015	(1)				
Primrose Retirement Center of Lancaster Lancaster, Ohio ("Columbus")	\$	—	2,840	\$	21,884	\$	51	\$	362	\$	—	\$	25,137	\$	(5,887)	2007	5/29/2015	(1)
Primrose Retirement Center of Wausau Wausau, Wisconsin ("Green Bay")	—	1,089	18,653	3	15	—	1,092	18,668	—	19,760	(4,344)	2008	5/29/2015	(1)				
Superior Residences of Panama City Panama City Beach, Florida	—	2,099	19,367	14	971	—	2,113	20,338	—	22,451	(4,683)	2015	7/15/2015	(1)				
The Hampton at Meadows Place Fort Bend, Texas ("Houston")	—	715	24,281	11	516	—	726	24,797	—	25,523	(5,459)	2007/2013/ 2014	7/31/2015	(1)				
The Pavilion at Great Hills Austin, Texas	—	1,783	29,318	53	330	—	1,836	29,648	—	31,484	(6,605)	2010	7/31/2015	(1)				

**CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES**  
**SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION (CONTINUED)**  
**AS OF DECEMBER 31, 2023 (in thousands)**

Property/Location	Initial Costs			Costs Capitalized Subsequent to Acquisition			Gross Amounts at which Carried at Close of Period <sup>(2)</sup>			Life on which depreciation in latest income statement is computed												
	Encumbrances	Land & Land Improvements	Building and Building Improvements	Land & Land Improvements	Building and Building Improvements	Construction in Process	Land & Land Improvements	Building and Building Improvements	Construction in Process		Total	Accumulated Depreciation	Date of Construction	Date Acquired								
The Beacon at Gulf Breeze Gulf Breeze, Florida ("Pensacola")	—	824	24,106	96	418	—	920	24,524	—	25,444	(5,631)	2008	7/31/2015	(1)								
Parc at Piedmont Marietta, Georgia ("Atlanta")	—	3,529	43,080	36	1,853	—	3,565	44,933	—	48,498	(10,167)	2001/2011	7/31/2015	(1)								
Parc at Duluth Duluth, Georgia ("Atlanta")	—	5,951	42,458	70	2,933	—	6,021	45,391	—	51,412	(10,057)	2003/2012	7/31/2015	(1)								
Waterstone on Augusta Greenville, South Carolina	—	2,253	—	2,117	20,923	—	4,370	20,923	—	25,293	(4,558)	2017	8/31/2015	(1)								
Wellmore of Lexington Lexington, South Carolina ("Columbia")	—	2,300	—	3,210	43,149	—	5,510	43,149	—	48,659	(8,562)	2017	9/14/2015	(1)								
Palmilla Senior Living Albuquerque, New Mexico	—	4,701	38,321	68	333	—	4,769	38,654	—	43,423	(8,723)	2013	9/30/2015	(1)								
Cedar Lake Assisted Living and Memory Care Lake Zurich, Illinois ("Chicago")	—	2,412	25,126	49	148	—	2,461	25,274	—	27,735	(5,698)	2014	9/30/2015	(1)								
The Shores of Lake Phalen Maplewood, Minnesota ("St. Paul")	—	2,724	25,093	18	113	—	2,742	25,206	—	27,948	(5,596)	2012	11/10/2015	(1)								
Dogwood Forest of Grayson, Georgia	—	1,788	—	112	22,084	—	1,900	22,084	—	23,984	(3,754)	2017	11/24/2015	(1)								
Park Place Senior Living at Winghaven O'Fallon, Missouri ("St. Louis")	—	1,283	48,221	151	1,301	—	1,434	49,522	—	50,956	(10,625)	2006/2014	12/17/2015	(1)								
Heartside Senior Living of Collierville Collierville, Tennessee ("Memphis")	—	1,756	13,379	60	42	—	1,816	13,421	—	15,237	(3,012)	2014	12/29/2015	(1)								
Albuquerque, New Mexico Vacant Land Albuquerque, New Mexico	\$	—	\$	—	\$	—	\$	1,056	\$	—	\$	—	9/7/2017	(1)								
Finton Assisted Living Vinton, Iowa	2,423	1,083	3,439	—	9	—	1,083	3,448	—	4,531	(268)	2007	8/31/2012	(1)								
Webster City Assisted Living Webster City, Iowa	2,202	912	3,794	84	1	—	996	3,795	—	4,791	(302)	2007	8/31/2012	(1)								
Nevada Assisted Living Nevada, Iowa	4,919	1,749	7,196	—	—	—	1,749	7,196	—	8,945	(355)	2011	8/31/2012	(1)								
Grimmell Assisted Living Grimmell, Iowa	4,698	1,690	4,454	28	21	—	1,718	4,475	—	6,193	(354)	2005	4/2/2013	(1)								
Indianola Assisted Living Indianola, Iowa	1,908	986	3,369	6	29	—	992	3,398	—	4,390	(251)	2004	4/2/2013	(1)								
	\$	36,818	\$	123,155	\$	1,267,517	\$	14,238	\$	235,062	\$	—	\$	137,393	\$	1,502,579	\$	—	\$	1,639,972	\$	(381,570)

CNL HEALTHCARE PROPERTIES, INC. AND SUBSIDIARIES  
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION (CONTINUED)  
AS OF DECEMBER 31, 2023 (in thousands)

Transactions in real estate and accumulated depreciation as of December 31, 2023 are as follows:

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	<u>842</u>
2021 Impairments	(9,673)	Balance December 31, 2021	(303,767)
Balance December 31, 2021	<u>1,630,482</u>	2022 Depreciation	(43,781)
2022 Acquisitions <sup>(3)</sup>	28,672	2022 Accumulated depreciation on dispositions	9,198
2022 Improvements	11,339	Balance December 31, 2022	<u>(338,350)</u>
2022 Dispositions	(38,525)	2023 Depreciation	(43,220)
Balance December 31, 2022	<u>1,631,968</u>	2023 Accumulated depreciation on dispositions	<u>—</u>
2023 Improvements	8,004	Balance December 31, 2023	<u><u>\$ (381,570)</u></u>
Balance at December 31, 2023	<u><u>\$ 1,639,972</u></u>		

**FOOTNOTES:**

- (1) Buildings and building improvements are depreciated over 39 and 15 years, respectively. Tenant improvements are depreciated over the terms of their respective leases.
- (2) The aggregate cost for federal income tax purposes is approximately \$1.8 billion.
- (3) Represents the consolidation of the five properties held by the Windsor Manor Joint Venture, effective January 1, 2022, as described in Note 4. "Acquisition."

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

There were no changes in or disagreements with our independent registered public accounting firm during the period ended December 31, 2023.

### **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, 2023 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 7, 2024 were as follows:

Name	Age	Position
James M. Seneff, Jr.	77	Director and Chairman of the Board
Stephen H. Mauldin	55	Director, Vice Chairman of the Board, President and Chief Executive Officer
James Chandler Martin	73	Independent Director and Audit Committee Financial Expert
Michael P. Haggerty	71	Independent Director
J. Douglas Holladay	77	Independent Director
Ixchell C. Duarte	57	Chief Financial Officer, Senior Vice President and Treasurer (Principal Financial and Principal Accounting Officer)
John R. McRae	53	Senior Vice President
Tracey B. Bracco	44	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 the company 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 the board of directors of CNL Healthcare Corp., our advisor (the “Advisor”), 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 securities of middle market 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). Mr. Seneff also 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 (the “Sponsor”), and as executive chairman (January 2011 to present), chairman (1988 to January 2011), chief executive officer (1995 to January 2011) and president (1980 to 1995) of CNL Financial Group, Inc., a diversified real estate company. Mr. Seneff also has served on the board of directors of the following CNL Holdings’ affiliates: CNL Hotels & Resorts, Inc., a public, non-traded REIT (1996 to April 2007), and its advisor, CNL Hospitality Corp. (1997 to June 2006 (became self-advised)); CNL Retirement Properties, Inc., a public, non-traded REIT, and its advisor, CNL Retirement Corp. (1997 to October 2006); CNL Restaurant Properties, Inc., a public, non-traded REIT, and its advisor (1994 to 2005 (became self-advised)); Trustreet Properties, Inc. (“Trustreet”), a publicly traded REIT (2005 to February 2007); National Retail Properties, Inc., a publicly traded REIT (1994 to 2005); CNL Securities Corp., a FINRA-registered broker-dealer and the managing dealer of our offerings (1979 to 2013); and CNL Capital Markets Corp. (1990 to 2017). Mr. Seneff was also the chairman and a principal stockholder of CNLBancshares, Inc. (1999 to 2015), which owned CNLBank until it merged into Valley National Bank in 2015. Mr. Seneff received his B.A. in business administration from Florida State University.

**As a result of these professional and other experiences, Mr. Seneff possesses particular knowledge of real estate acquisitions, ownership and dispositions in a variety of public and private real estate investment vehicles, which strengthens the board's collective knowledge, capabilities and experience. Mr. Seneff is principally responsible for overseeing the formulation of our strategic objectives.**

**Stephen H. Mauldin, Vice Chairman of the Board and Director.** Mr. Mauldin has served as vice chairman of the Board and a director since June 2016, as our president since September 2011 and as our chief executive officer since April 2012. Mr. Mauldin is primarily responsible for overseeing the formulation and execution 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 served as a director of CNL Healthcare Properties II, Inc., a public, non-traded REIT, from November 2015, as vice chairman of its board of directors from November 2015 to December 2017, as chairman of its board of directors from January 2018 and as its chief executive officer and president since July 2015 until its dissolution in March 2020. Mr. Mauldin has served as manager and president of CHP II Advisors, LLC since July 2015, and as chief executive officer of CHP II Advisors since January 2018. Mr. Mauldin also served as chief operating officer of CHP II Advisors 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. Mr. Mauldin served on the board of directors of Burroughs & Chapin Company, Inc., a South Carolina based real estate investment trust, since May 2021. 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 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 operating 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., William D. Sanders. Prior to its sale in 2002, Security Capital Group 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 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 served 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 owned 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., serving on the executive, audit, investment, marketing and compensation committees. Mr. Haggerty also serves as President of a private family investment company, Kamimac, LLC. 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 served as a guest columnist for the online Washington Post and is an adjunct professor at Georgetown University. From 2009 to the present, Mr. Holladay has served on the board of directors of Miraval, a privately held luxury resort and spa located in Arizona. From July 2004 to April 2007, Mr. Holladay served as a director of CNL Hotels & Resorts, Inc., a public non-traded REIT affiliated with CNL. From 2004 until July 2008, Mr. Holladay also served as an advisor to Providence Capital (now CNL Opportunity Fund), a hedge fund based in Minnesota. Previously, Mr. Holladay held senior positions at Goldman, Sachs & Co., the U.S. State Department and the White House. While a diplomat, Mr. Holladay was accorded the personal rank of ambassador. Between 2000 and 2009, Mr. Holladay served as a director for Sunrise Senior Living, Inc., a public company that provides senior living services in the United States, Canada and the United Kingdom. Mr. Holladay attained an M.Litt. in political and economic history from Oxford University, an M.A. in theology from Princeton Theological Seminary, and an A.B. in political science from the University of North Carolina, Chapel Hill. He holds honorary doctorates from Morehouse College and Nyack College.

**As a result of these professional and other experiences, Mr. Holladay possesses particular knowledge of real estate investment and finance and the capital markets, which strengthens the board of directors' collective knowledge, capabilities and experience.**

*Ixchell C. Duarte, Chief Financial Officer, Senior Vice President and Treasurer.* Ms. Duarte has served as our chief financial officer and treasurer since February 2018 and as a senior vice president since March 2012. She previously served as the Company's chief accounting officer from March 2012 to June 2017 and as a vice president from February 2012 to March 2012. Ms. Duarte has served as senior vice president and chief accounting officer of our Advisor since November 2013. Ms. Duarte served as senior vice president and chief accounting officer of CNL Lifestyle Properties, Inc., a public, non-traded REIT from March 2012 until its dissolution in December 2017. Ms. Duarte served as senior vice president and chief accounting officer of its advisor from November 2013 to December 2017. Ms. Duarte served as senior vice president and chief accounting officer of CNL Growth Properties, Inc., a public non-traded REIT from June 2012 until its dissolution in October 2017. Ms. Duarte served as senior vice president of its advisor from November 2013 to December 2017. She also served as senior vice president and chief accounting officer of Global Income Trust, Inc., another public non-traded REIT, from June 2012 until its dissolution in December 2015 and served as a senior vice president of its advisor from November 2013 to December 2016. Ms. Duarte served as senior vice president of CNL Healthcare Properties II, Inc., a public, non-traded REIT from January 2016, as chief accounting officer from January 2016 to June 2017 and as chief financial officer and treasurer from February 2018 until its dissolution in March 2020. Ms. Duarte has served as senior vice president and chief accounting officer of its advisor, CHP II Advisors, LLC, since July 2015. Prior to rejoining CNL affiliates in January 2012, Ms. Duarte served as controller at GE Capital, Franchise Finance from February 2007 through January 2012. Ms. Duarte served as senior vice president and chief accounting officer of Truststreet Properties, Inc., a



publicly traded REIT (which was 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 spent seven years working as an external financial auditor starting in the New York City audit practice of KPMG, LLP and then 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 R. McRae, Senior Vice President.** Mr. McRae has served as senior vice president since July 2022 and as the Advisor's chief investment officer since 2015. Mr. McRae served as vice president of CNL Growth Properties III Member, LLC, the managing member of CNL Growth Properties III, LLC, since October 2017 until its dissolution in August 2022. Mr. McRae served as senior vice president of CNL Growth Properties II Member, LLC, the managing member of CNL Growth Properties II, LLC until its dissolution in December 2020, since April 2015. Mr. McRae served as senior vice president of CNL Healthcare Properties II, Inc., a public, non-traded REIT, from January 2016 until its dissolution in March 2020 and has served as senior vice president of its advisor since April 2016. Mr. McRae also served as vice president of CNL Financial Group Investment Management, LLC from October 2011 until his appointment as chief investment officer in March 2015. Mr. McRae has served as CNL Financial Group's senior managing director, acquisitions, responsible for domestic investment activities for CNL Growth Properties, Inc., and Global Income Trust, Inc. Mr. McRae oversees all aspects of the investment process including the structuring of joint venture arrangements, project financing, property underwriting and sourcing new investment opportunities. Mr. McRae has over 25 years of diversified real estate experience encompassing all functions of commercial real estate including development, leasing, financing and management. Prior to joining CNL, Mr. McRae served as senior vice president at Trammell Crow Company. Mr. McRae received a B.S. in business from the University of Florida.

**Tracey B. Bracco, General Counsel, Senior Vice President and Secretary.** Ms. Bracco has served as general counsel, senior vice president and secretary of the company since March 2018. Ms. Bracco 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 the Advisor since November 2013. Ms. Bracco also served as general counsel and secretary of CNL Healthcare Properties II, Inc., a public, non-traded REIT, from August 23, 2016 and as vice president from 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 seven meetings in 2023. Two out of three directors attended 100% of the meetings of the Board, with one attending six meetings. 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 2023 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.

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, 2023, the Audit Committee held a total of four meetings, including four 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, 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, 2023. 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 2023 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 2023.

Name	Fees Earned or Paid in Cash	Total Compensation
James M. Seneff, Jr. (Chairman)	\$ —	\$ —
Stephen H. Mauldin	—	—
J. Chandler Martin	126,000	126,000
Michael P. Haggerty	106,000	106,000
J. Douglas Holladay	104,000	104,000

## Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information regarding the shares of the Company's common stock beneficially owned by each director and nominee, by each executive officer and by all executive officers and directors as a group, based upon information furnished by such stockholders, directors and officers. Unless otherwise noted below, such persons have sole investment and voting power over the shares. The address of the named officers and directors is CNL Center at City Commons, 450 South Orange Avenue, 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 7, 2024.

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>
Ixchell C. Duarte	—	0.0 %
John R. McRae	—	0.0 %
Tracey B. Bracco	—	0.0 %
All directors and executive officers as a group (8 persons)	<u>1,376,953</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 7, 2024.

### 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, 2023 or March 7, 2024.

## 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 12. Related Party Arrangements."

In order to reduce or eliminate certain potential conflicts of interest, our charter and our advisory agreement contain restrictions and conflict resolution procedures relating to transactions we enter into with our Advisor and other related parties. The types of transactions covered by these policies include the compensation paid to our Advisor, decisions to renew our advisory agreement, acquisitions or leases of assets and any other transaction in which our Advisor or any of our directors have an interest.

Our board of directors monitors and reviews issues involving potential conflicts of interest and related party transactions. Our independent directors are responsible for reviewing our fees and expenses, including those payable to our Advisor and other related parties, at least annually or with sufficient frequency to determine that our total fees and expenses are fair and reasonable in light of our investment performance, among other factors. Our independent directors are also responsible for reviewing, at least annually, the performance of our Advisor and determining that compensation to be paid to the Advisor is reasonable in relation to the nature and quality of services performed and our performance. In addition, a majority of our independent directors, must approve each transaction with our Advisor or its affiliates.

During 2023, 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 2023, the Company’s Total Operating Expenses incurred represented approximately 94.8% 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, 2023 and 2022.

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, 2023 and 2022, 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.

	<b>Years Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Audit fees	\$ 827,900	\$ 819,800
Audit-related fees	—	—
Tax fees	385,050	636,842
All other fees	—	—
Total Fees	\$ 1,212,950	\$ 1,456,642

*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, 2023 and 2022.

*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, 2023 and 2022.

## 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, 2023 and 2022

Consolidated Statements of Operations for the years ended December 31, 2023, 2022 and 2021

Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2023, 2022 and 2021

Consolidated Statements of Stockholders' Equity and Redeemable Noncontrolling Interest for the years ended December 31, 2023, 2022 and 2021

Consolidated Statements of Cash Flows for the years ended December 31, 2023, 2022 and 2021

Notes to Consolidated Financial Statements

(2) Index to Financial Statement Schedules:

Schedule II – Valuation and Qualifying Accounts for the years ended December 31, 2023, 2022 and 2021

Schedule III – Real Estate and Accumulated Depreciation as of December 31, 2023

(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	Form of Managing Dealer Agreement <i>(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.)</i>
1.2	Form of Participating Broker Agreement <i>(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.)</i>
3.1	Third Articles of Amendment and Restatement of CNL Healthcare Properties, Inc. <i>(Previously filed as Exhibit 3.1 to the Current Report on Form 8-K filed July 25, 2016 and incorporated herein by reference.)</i>
3.2	Third Amended and Restated Bylaws of CNL Healthcare Properties, Inc., effective June 27, 2013 <i>(Previously filed as Exhibit 3.2 to the Current Report on Form 8-K filed July 2, 2013 and incorporated herein by reference.)</i>
4.1	Statement regarding restrictions on transferability of shares of common stock (to appear on stock certificate or to be sent upon request and without charge to stockholders issued shares without certificates) <i>(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.)</i>
4.2	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934. <i>(Filed herewith.)</i>
10.1	Amended and Restated Limited Partnership Agreement of CNL Properties Trust, LP dated June 8, 2011 <i>(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.)</i>
10.2	Advisory Agreement dated June 8, 2011, between CNL Properties Trust, Inc., CNL Properties Trust LP, and CNL Properties Corp. <i>(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.)</i>
10.2.1	First Amendment to Advisory Agreement dated October 5, 2011, by and between CNL Properties Trust, Inc., CNL Properties Corp., and CNL Properties Trust, LP <i>(Previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed October 5, 2011 and incorporated herein by reference.)</i>
10.2.2	Second Amendment to Advisory Agreement dated March 20, 2013, by and among CNL Healthcare Properties, Inc., CHP Partners, LP and CNL Healthcare Corp. <i>(Previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed March 26, 2013 and incorporated herein by reference.)</i>
10.2.3	Third Amendment to Advisory Agreement dated May 26, 2021, by and among CNL Healthcare Properties, Inc., CHP Partners, LP, and CNL Healthcare Corp. <i>(previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed May 27, 2021 and incorporated herein by reference.)</i>

<b>Exhibit No.</b>	<b>Description</b>
10.2.4	Fourth Amendment to Advisory Agreement by and among CNL Healthcare Properties, Inc., CHP Partners, LP, and CNL Healthcare Corp. dated effective as of June 8, 2023 <i>(Previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed June 6, 2023 and incorporated herein by reference.)</i>
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. <i>(Previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed July 2, 2012 and incorporated herein by reference.)</i>
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. <i>(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.)</i>
10.4	Service Agreement dated as of June 8, 2011, by and between CNL Capital Markets Corp. and CNL Properties Trust, Inc. <i>(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.)</i>
10.4.1	Second Addendum to Service Agreement dated March 20, 2013, by and between CNL Capital Markets Corp. and CNL Healthcare Properties, Inc. <i>(Previously filed as Exhibit 10.3 to the Current Report on Form 8-K filed March 26, 2013 and incorporated herein by reference.)</i>
10.5	Expense Support and Restricted Stock Agreement effective April 1, 2013, by and between CNL Healthcare Properties, Inc. and CNL Healthcare Corp. <i>(Previously filed as Exhibit 10.2 to the Current Report on Form 8-K filed March 26, 2013 and incorporated herein by reference.)</i>
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. <i>(Previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed November 26, 2013 and incorporated herein by reference.)</i>
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. <i>(Previously filed as Exhibit 10.4 to the Current Report on Form 8-K filed April 3, 2014 and incorporated herein by reference.)</i>
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. <i>(Previously filed as Exhibit 10.5.3 to the Form 10-K filed March 16, 2016 and incorporated herein by reference.)</i>
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. <i>(Previously filed as Exhibit 10.5.4 to the Current Report on Form 8-K filed February 13, 2017 and incorporated herein by reference.)</i>
10.6	Expense Support and Restricted Stock Agreement effective July 1, 2013, by and among CNL Healthcare Properties, Inc. and CNL Healthcare Manager Corp. <i>(Previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed August 27, 2013 and incorporated herein by reference.)</i>

<b>Exhibit No.</b>	<b>Description</b>
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. <i>(Previously filed as Exhibit 10.2 to the Current Report on Form 8-K filed November 26, 2013 and incorporated herein by reference.)</i>
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. <i>(Previously filed as Exhibit 10.5 to the Current Report on Form 8-K filed April 3, 2014 and incorporated herein by reference.)</i>
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. <i>(Previously filed as Exhibit 10.6.3 to the Form 10-K filed March 16, 2016 and incorporated herein by reference.)</i>
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. <i>(Previously filed as Exhibit 10.6.4 to the Current Report on Form 8-K filed February 13, 2017 and incorporated herein by reference.)</i>
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 <i>(Previously filed as Exhibit 99.1 to the Current Report on Form 8-K filed April 19, 2012 and incorporated herein by reference.)</i>
10.8	Amended and Restated Credit Agreement by and among CHP Partners, LP, as borrower, KeyBank National Association, as administrative agent and a lender, and certain other Lenders dated December 7, 2023 <i>(Previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed December 12, 2023 and incorporated herein by reference.)</i>
10.9	Amended and Restated Guaranty Agreement by CNL Healthcare Properties, Inc. and certain of its subsidiaries in favor of the Lenders referred to in the Credit Agreement <i>(Previously filed as Exhibit 10.4 to the Current Report on Form 8-K filed December 12, 2023 and incorporated herein by reference.)</i>
10.10	Revolving Note made by CHP Partners, LP in the principal amount of \$48,958,332 in favor of KeyBank National Association dated December 7, 2023 <i>(previously filed as Exhibit 10.2 to the Current Report on Form 8-K filed December 12, 2023 and incorporated herein by reference.)</i>
10.11	Term Note made by CHP Partners, LP in the principal amount of \$68,541,668 in favor of KeyBank National Association dated December 7, 2023 <i>(previously filed as Exhibit 10.3 to the Current Report on Form 8-K filed December 12, 2023 and incorporated herein by reference.)</i>
10.12	Schedule of Omitted Documents <i>(Filed herewith.)</i>
21.1	Subsidiaries of the Registrant <i>(Filed herewith.)</i>
23.1	Consent of Independent Registered Public Accounting Firm - PricewaterhouseCoopers LLP. <i>(Filed herewith.)</i>
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. <i>(Filed herewith.)</i>

<b>Exhibit No.</b>	<b>Description</b>
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. <i>(Filed herewith.)</i>
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. <i>(Filed herewith.)</i>
101	The following materials from CNL Healthcare Properties, Inc. Quarterly Report on Form 10-K for the year ended December 31, 2023, 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 12<sup>th</sup> day of March 2024.

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.

Signature	Title	Date
<u>/s/ James M. Seneff, Jr.</u> JAMES M. SENEFF, JR.	Chairman of the Board	March 12, 2024
<u>/s/ Michael P. Haggerty</u> MICHAEL P. HAGGERTY	Independent Director	March 12, 2024
<u>/s/ J. Douglas Holladay</u> J. DOUGLAS HOLLADAY	Independent Director	March 12, 2024
<u>/s/ J. Chandler Martin</u> J. CHANDLER MARTIN	Independent Director	March 12, 2024
<u>/s/ Stephen H. Mauldin</u> STEPHEN H. MAULDIN	Vice Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)	March 12, 2024
<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 12, 2024

## REPORT OF INDEPENDENT DIRECTORS

As Independent Directors of CNL Healthcare Properties, Inc. (the “**Company**”), in 2023, 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.

As of December 31, 2023, our investment portfolio consisted of interests in 70 properties, comprising of 69 senior housing communities and one vacant land parcel.

*Investment Policies.* Since inception and through the completion of the Company’s acquisition phase, the Company’s investment policies have 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 the 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 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 borrowings, secured and unsecured, are believed to 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 may be influenced 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 2022, the Company lowered its regular quarterly distribution to account for inflation concerns as well as liquidity and cash management and, in 2023, the Company continued to pay quarterly distributions at this lower rate. The Board believes 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 its cash flows from operations in assisting the Board in determining the level of distributions going forward, if any.

*Related Party Transactions.* The Independent Directors are responsible for reviewing the Company's fees and expenses payable to the Advisor and other related parties at least annually or with sufficient frequency to determine that the Company's total fees and expenses are fair and reasonable considering its investment performance, among other factors. The Independent Directors are also responsible for reviewing, at least annually, the performance of the Advisor and determining that compensation to be paid to the Advisor is reasonable in relation to the nature and quality of services performed and our performance. We have also reviewed the annual report and transactions with affiliates as outlined in Note 12 to the Consolidated Financial Statements for year ended December 31, 2023, 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.

*Cybersecurity.* We recognize the importance of assessing, identifying, and managing material risks associated with cybersecurity threats, as such term is defined in Item 106(a) of Regulation S-K promulgated under the Securities Act of 1933, as amended. These risks include, among other things: operational risks, intellectual property theft, fraud, extortion, harm to customers and violation of data privacy or security laws. Our Sponsor has an enterprise-wide cybersecurity program run by our Sponsor's chief technology officer to protect and defend against and manage foreseeable cybersecurity risks and threats. The Independent Directors receive updates at least annually from senior management, including the Sponsor's chief technology officer, internal audit and legal teams regarding matters of cybersecurity. This includes existing and new cybersecurity risks, status on how management is addressing and/or mitigating those risks, cybersecurity and data privacy incidents (if any) and status on key information security initiatives.

*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 2023, 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

*CHP Independent Directors Report  
Year Ended December 31, 2023*



Valuation Committee to oversee the valuation process. In March 2024, the Board unanimously approved \$6.28 as the estimated NAV per share of the Company's common stock as of December 31, 2023.

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, 2023, 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 94.8%.

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, 2023.

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## 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, Kamimac, LLC  
Director, North Dallas Bank & Trust Co.



**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 McRae**  
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 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

### Legal Counsel

Arnold & Porter Kaye Scholer LLP  
San Francisco, California

### Corporate Offices

CNL Healthcare Properties, Inc.  
450 South Orange Avenue  
Orlando, Florida 32801-3336  
800-522-3863  
cnlhealthcareproperties.com

### Independent Registered Certified Public Accounting Firm

PricewaterhouseCoopers LLP  
Tampa, Florida

### Advisor

CNL Healthcare Corp.  
Orlando, Florida

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## 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

Top Right: Raider Ranch, Lubbock, Texas  
Bottom Right: MorningStar of Boise, Boise, Idaho

