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April 11, 2012

Via PDF email: pubcom@finra.org

Ms. Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW Washington, DC 20006-1506

Re: FINRA Regulatory Notice 12-14

Dear Ms. Asquith:

NorthStar Realty Finance Corp. (“NRF”), NorthStar Real Estate Income Trust, Inc. (“NorthStar Income”), NorthStar Healthcare Income Trust, Inc. (“NorthStar Healthcare”) and NorthStar Realty Securities, LLC (“NorthStar Realty Securities”) appreciate the opportunity to comment on Regulatory Notice 12-14 (the “Notice”) published by the Financial Industry Regulatory Authority, Inc. (“FINRA”). The Notice seeks comments to FINRA’s revised proposal to modify NASD Rule 2340, which governs reporting of per share estimated values on customer account statements (the “Proposed Amendment”). NRF is the sponsor of both NorthStar Income and NorthStar Healthcare and is a NYSE-listed finance real estate investment trust (“REIT”) that primarily originates, acquires and manages portfolios of commercial real estate debt, real estate securities and net lease properties. In addition, NRF engages in asset management and other activities related to real estate and real estate finance. NRF has approximately \$7.0 billion of commercial real estate assets under management. NorthStar Income is a public, non-listed REIT that was formed to originate, invest in, and manage a diversified portfolio of commercial real estate debt, commercial real estate debt-related securities and select commercial real estate equity investments. NorthStar Income has raised in excess of \$200 million of capital to date. NorthStar Healthcare (f/k/a NorthStar Senior Care Trust, Inc.), is a non-listed REIT presently in registration with the U.S. Securities and Exchange Commission (“SEC”) and the various States, formed to primarily originate, acquire and asset manage a diversified portfolio of debt and equity investments in healthcare real estate, with a focus on the senior housing sector. Lastly, NorthStar Realty Securities is a FINRA registered broker-dealer, NorthStar Income’s dealer manager and an affiliate of NRF.

Together, we offer a unique perspective on the Notice given that (i) to our knowledge, NorthStar Income was the first public non-listed REIT with a core focus on commercial real estate debt related investments, (ii) NorthStar Income is one of only a few public, non-listed REITs sponsored by a publicly traded company and (iii) we have the benefit of perspectives held by four important constituencies, namely the sponsor of non-listed REITs, a public non-listed REIT issuer currently executing its initial public offering, a non-listed REIT presently in registration and a captive broker-dealer focused on the industry.

We again share FINRA’s commitment to providing transparency and clear disclosure to investors. The primary focus of this letter is to highlight potential concerns that would arise in connection

with implementation of the Proposed Amendment and, if and when implemented, to recommend an appropriate timeframe for such implementation. We believe it is abundantly fair to say that neither regulators nor industry participants can, with certainty, predict all of the practical implications associated with implementing the Proposed Amendment. Given the breadth of the industry as well as its importance to investors, capital markets and the economy as a whole, we recommend that any changes be implemented cautiously and on a timeline that would minimize market disruption. In this letter, we urge FINRA to consider: (1) adopting an incremental implementation for effectiveness of the Proposed Amendment, referred to in the industry as “grandfathering;” (2) the potential confusion of investors associated with placing a “net offering price” on customer account statements; and (3) to consider the unintended impact caused by the “not priced” option on certain qualified plans, among other logistical considerations.

Incremental Implementation of the Proposed Amendment

First and foremost, we think it is critical that existing market participants currently raising capital be grandfathered from any changes during their remaining initial public offering period. The capital raised during an initial public offering period is the foundation of any issuer’s ability to implement its business plan and create value for its stockholders. The Proposed Amendment has the potential to negatively impact the non-listed REIT industry and investors unless the existing market participants have ample time to adjust market practices. To the extent that any market disruptions result from implementation of the Proposed Amendment, whether as a result of modified broker-dealer incentives or technical logistics, such disruptions could impose significant hardship not only on existing issuers currently raising capital, but also on investors who have already placed their money with these non-listed REITs. These investors made their investment decision under the existing regulatory regime and likely had reasonable expectations that regulatory changes would not stifle capital raising efforts and negatively impact the companies in which they invested. Furthermore, we think that FINRA should include issuers in registration in any grandfathering provisions incorporated into any final rule based on the Proposed Amendment given the considerable resources those issuers have expended in preparing to raise capital under the current regulatory regime. Without grandfathering existing issuers currently raising capital, FINRA’s Proposed Amendment may have the unintended consequence of disrupting capital flows and, consequently, harming the value of existing investments. We respectfully urge FINRA to permit existing issuers and investors to operate under the terms of the existing regulatory framework to provide consistency in the capital markets and market participants’ expectations.

Net Offering Price as a Source of Investor Confusion

We also want to express our concern that FINRA’s proposed reporting of “net offering price,” namely the gross offering price during the initial offering period as reduced by front-end underwriting compensation expense (the “Net Offering Price Option”) may create additional confusion for investors. Investors may mistake this figure as a reflection of value or cost basis, and it is neither. While value and cost basis are relatively common metrics that the investing public is familiar with when reviewing customer account statements, there is no such familiarity with this new concept of net offering price and we believe it is bound to create confusion. Again, we fully support accurate and comprehensive disclosure to investors to ensure that investors are provided with a clear understanding of all underwriting and other expenses in the applicable prospectus, however, we view the Net Offering Price Option as a calculation that is better presented in a prospectus than on a customer account statement. Given the issues being evaluated by FINRA and the surrounding circumstances, we submit that all applicable constituents, including investors, may be better served if additional disclosure is made within an applicable prospectus rather than on a customer account statement.

Existing Systems and “Not Priced” Option

We also note that implementation of the Proposed Amendment will likely require a significant devotion of time and effort by market participants to adapt to the change, educate constituents and navigate the numerous logistical challenges that may arise. We anticipate the Proposed Amendment would necessitate the revamping of various programs and systems associated with the record keeping and customer account statement production. The option that member firms have to report securities as “not priced,” provided that the issuer has not provided an appraised value in its periodic or current reports by the second quarterly filing deadline (the “Not Priced Option”), also presents significant implementation issues for issuers and investors. As FINRA is aware, non-listed REITs and DPPs are often marketed to investors through their individual retirement accounts, defined contributions, or profit-sharing plans since these investments have income-generation as an investment objective. Once a beneficiary reaches a certain age, that beneficiary must begin taking distributions from the account based on the beneficiary’s life expectancy. The formula used requires an estimated value per share in order to calculate this required distribution. A substantial problem presented by the Not Priced Option is that it may be difficult, if not impossible, for these investors to calculate the proper distribution given that there will be no dollar amount associated with their non-listed REIT securities, which may prevent these investors from participating in the non-listed REIT market and negatively impact the capital raising efforts of issuers who depend on these accounts as a significant source of funds.

To avoid investor confusion, unintended negative impacts on the non-listed REIT industry, a reduction in capital formation in the United States and, most importantly, an adverse effect for existing investors, we encourage FINRA to incorporate either an extended transition period or grandfathering provisions into any final rule. In addition, we urge FINRA to conduct further research and studies to determine the potential impact of the Proposed Amendment on the non-listed REIT market and investors.

We fully support the prudent regulation of the U.S. capital markets by FINRA, the SEC and the state securities commissions. We appreciate the opportunity to comment on the Proposed Amendment so we can work in a collaborative manner to protect investors and support a well-functioning capital markets system in the United States.

Very truly yours,

NorthStar Realty Finance Corp.
Daniel R. Gilbert
Co-President and Chief Investment Officer

NorthStar Real Estate Income Trust, Inc.
Daniel R. Gilbert
President and Chief Investment Officer

NorthStar Healthcare Income Trust, Inc.
Daniel R. Gilbert
Chief Executive Officer

NorthStar Realty Securities, LLC
W. Timothy Toole
President