Grubb & Ellis Healthcare REIT, Inc.
Form 10-Q
May 15, 2009

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

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **March 31, 2009**

or

o **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: **000-53206**

Grubb & Ellis Healthcare REIT, Inc.
(Exact name of registrant as specified in its charter)
(To be named Healthcare Trust of America, Inc.)

Maryland	**20-4738467**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
16427 N. Scottsdale Road, Suite 440, Scottsdale, Arizona	**85254**
(Address of principal executive offices)	(Zip Code)

(480) 998-3478
(Registrant s telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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.

þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

o Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o		Accelerated filer	o
Non-accelerated filer	þ	(Do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes

As of April 30, 2009, there were 102,972,013 shares of common stock of Grubb & Ellis Healthcare REIT, Inc. outstanding.

Grubb & Ellis Healthcare REIT, Inc.
(A Maryland Corporation)
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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Grubb & Ellis Healthcare REIT, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
As of March 31, 2009 and December 31, 2008
(Unaudited)

	March 31, 2009	December 31, 2008
ASSETS		
Real estate investments:		
Operating properties, net	$ 834,529,000	$ 810,920,000
Real estate note receivables, net	15,689,000	15,360,000
Cash and cash equivalents	255,068,000	128,331,000
Accounts and other receivables, net	7,065,000	5,428,000
Restricted cash	8,112,000	7,747,000
Identified intangible assets, net	134,713,000	134,623,000
Other assets, net	12,734,000	11,514,000
Total assets	$ 1,267,910,000	$ 1,113,923,000
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage loan payables, net	$ 453,606,000	$ 460,762,000
Accounts payable and accrued liabilities	25,447,000	21,919,000
Accounts payable due to affiliates, net	4,196,000	3,063,000
Derivative financial instruments	13,268,000	14,198,000
Security deposits, prepaid rent and other liabilities	4,163,000	4,582,000
Identified intangible liabilities, net	7,651,000	8,128,000
Total liabilities	508,331,000	512,652,000
Commitments and contingencies (Note 11)		
Redeemable noncontrolling interest of limited partners (Note 13)	2,122,000	1,951,000
Equity:		
Stockholders equity:		
Preferred stock, $0.01 par value; 200,000,000 shares authorized; none issued and outstanding		
Common stock, $0.01 par value; 1,000,000,000 shares authorized; 95,482,964 and 75,465,437 shares issued and outstanding as of March 31, 2009 and December 31, 2008, respectively	954,000	755,000
Additional paid-in capital	853,564,000	673,351,000
Accumulated deficit	(97,061,000)	(74,786,000)

Total stockholders equity		757,457,000		599,320,000
Total liabilities and equity	$	1,267,910,000	$	1,113,923,000

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Grubb & Ellis Healthcare REIT, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months Ended March 31, 2009 and 2008
(Unaudited)

	Three Months Ended March 31, 2009	2008
Revenues:		
Rental income	$ 29,190,000	$ 13,117,000
Interest income from real estate note receivables, net	626,000	
Total revenues	29,816,000	13,117,000
Expenses:		
Rental expenses	11,801,000	4,468,000
General and administrative	5,074,000	1,848,000
Depreciation and amortization	13,299,000	6,253,000
Total expenses	30,174,000	12,569,000
(Loss) income before other income (expense)	(358,000)	548,000
Other income (expense):		
Interest expense (including amortization of deferred financing costs and debt discount):		
Interest expense related to mortgage loan payables and line of credit	(7,500,000)	(3,712,000)
Gain (loss) on derivative financial instruments	930,000	(3,536,000)
Interest and dividend income	128,000	11,000
Net loss	(6,800,000)	(6,689,000)
Less: Net (income) loss attributable to noncontrolling interest of limited partners	(70,000)	79,000
Net loss attributable to controlling interest	$ (6,870,000)	$ (6,610,000)
Net loss per share attributable to controlling interest basic and diluted	$ (0.08)	$ (0.27)
Weighted average number of shares outstanding basic and diluted	84,672,174	24,266,342

The accompanying notes are an integral part of these condensed consolidated financial statements.

Grubb & Ellis Healthcare REIT, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
For the Three Months Ended March 31, 2009 and 2008
(Unaudited)

	Stockholders Equity					
	Common Stock					
	Number of Shares	Amount	Additional Paid-In Capital	Preferred Stock	Accumulated Deficit	Total Equity
BALANCE - December 31, 2007	21,449,451	$ 214,000	$ 190,534,000	$	$ (15,158,000)	$ 175,590,000
Issuance of common stock	5,757,170	58,000	57,473,000			57,531,000
Offering costs			(6,318,000)			(6,318,000)
Amortization of nonvested common stock compensation			19,000			19,000
Issuance of common stock under the DRIP	199,746	2,000	1,896,000			1,898,000
Repurchase of common stock	(12,270)		(123,000)			(123,000)
Distributions					(4,415,000)	(4,415,000)
Net loss attributable to controlling interest					(6,610,000)	(6,610,000)
BALANCE - March 31, 2008	27,394,097	$ 274,000	$ 243,481,000	$	$ (26,183,000)	$ 217,572,000
BALANCE - December 31, 2008	75,465,437	$ 755,000	$ 673,351,000	$	$ (74,786,000)	$ 599,320,000
Issuance of common stock	19,424,343	193,000	193,854,000			194,047,000
Offering costs			(19,129,000)			(19,129,000)
Amortization of nonvested common stock compensation			58,000			58,000

Issuance of common stock under the DRIP	729,946	7,000	6,927,000			6,934,000
Repurchase of common stock	(136,762)	(1,000)	(1,309,000)			(1,310,000)
Distributions					(15,405,000)	(15,405,000)
Adjustment to redeemable noncontrolling interests			(188,000)			(188,000)
Net loss attributable to controlling interest					(6,870,000)	(6,870,000)
BALANCE - March 31, 2009	95,482,964	$ 954,000	$ 853,564,000	$	$ (97,061,000)	$ 757,457,000

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Grubb & Ellis Healthcare REIT, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2009 and 2008

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (6,800,000)	$ (6,689,000)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization (including deferred financing costs, above/below market leases, debt discount, leasehold interests, deferred rent receivable, note receivable closing costs and discount and lease inducements)	12,400,000	5,871,000
Stock based compensation, net of forfeitures	58,000	19,000
Loss on property insurance settlements	(7,000)	
Bad debt expense	349,000	58,000
Change in fair value of derivative financial instruments	(930,000)	3,536,000
Changes in operating assets and liabilities:		
Accounts and other receivables, net	(1,731,000)	(1,327,000)
Other assets	(574,000)	(202,000)
Accounts payable and accrued liabilities	3,911,000	256,000
Accounts payable due to affiliates, net	(67,000)	452,000
Security deposits, prepaid rent and other liabilities	(714,000)	612,000
Net cash provided by operating activities	5,895,000	2,586,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of real estate operating properties	(36,588,000)	(107,609,000)
Capital expenditures	(2,030,000)	(775,000)
Restricted cash	(365,000)	654,000
Proceeds from insurance settlement	61,000	
Net cash used in investing activities	(38,922,000)	(107,730,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on mortgage loan payables	1,696,000	53,100,000
Borrowings under the line of credit, net		6,899,000
Payments on mortgage loan payables	(8,922,000)	(252,000)
Proceeds from issuance of common stock	193,645,000	58,404,000
Deferred financing costs	(42,000)	(700,000)
Security deposits	26,000	(14,000)
Repurchase of common stock	(1,310,000)	(123,000)
Payment of offering costs	(17,929,000)	(6,053,000)
Distributions	(7,313,000)	(2,169,000)
Distributions to noncontrolling interest limited partner	(87,000)	

Net cash provided by financing activities		159,764,000		109,092,000
NET CHANGE IN CASH AND CASH EQUIVALENTS		126,737,000		3,948,000
CASH AND CASH EQUIVALENTS - Beginning of period		128,331,000		5,467,000
CASH AND CASH EQUIVALENTS - End of period	$	255,068,000	$	9,415,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for:				
Interest	$	6,908,000	$	3,629,000
Income taxes	$	5,000	$	
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:				
Investing Activities:				
Accrued capital expenditures	$	1,700,000	$	843,000
The following represents the increase in certain assets and liabilities in connection with our acquisitions of operating properties :				
Accounts receivable due from affiliates	$		$	26,000
Other assets, net	$	7,000	$	19,000
Accounts payable and accrued liabilities	$	4,000	$	946,000
Accounts payable due to affiliates, net	$		$	3,000
Security deposits, prepaid rent and other liabilities	$	256,000	$	393,000
Financing Activities:				
Issuance of common stock under the DRIP	$	6,934,000	$	1,898,000
Distributions declared but not paid	$	5,553,000	$	1,603,000
Accrued offering costs	$	3,118,000	$	1,376,000
Accrued deferred financing costs	$	26,000	$	
Adjustment to redeemable noncontrolling interests	$	188,000	$	

The accompanying notes are an integral part of these condensed consolidated financial statements.

Grubb & Ellis Healthcare REIT, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
For the Three Months Ended March 31, 2009 and 2008

The use of the words we, us or our refers to Grubb & Ellis Healthcare REIT, Inc. and its subsidiaries, including Grubb & Ellis Healthcare REIT Holdings, L.P., except where the context otherwise requires.

1. Organization and Description of Business

Grubb & Ellis Healthcare REIT, Inc., a Maryland corporation, was incorporated on April 20, 2006. Upon or prior to the completion of our transition to self-management which we expect to complete by September 20, 2009, we intend to change our name to Healthcare Trust of America, Inc. We were initially capitalized on April 28, 2006 and therefore we consider that our date of inception. We provide stockholders the potential for income and growth through investment in a diversified portfolio of real estate properties, focusing primarily on medical office buildings and healthcare related facilities. We have also invested to a limited extent in commercial office properties and other real estate related assets. However, we do not presently intend to invest more than 15.0% of our total assets in other real estate related assets. We focus primarily on investments that produce recurring income. We have qualified and elected to be taxed as a real estate investment trust, or REIT, for federal income tax purposes and we intend to continue to be taxed as a REIT.

We are conducting a best efforts initial public offering, or our offering, in which we are offering up to 200,000,000 shares of our common stock for $10.00 per share and up to 21,052,632 shares of our common stock pursuant to our distribution reinvestment plan, or the DRIP, at $9.50 per share, aggregating up to $2,200,000,000. As of March 31, 2009, we had received and accepted subscriptions in our offering for 93,249,152 shares of our common stock, or $931,447,000, excluding shares of our common stock issued under the DRIP.

On April 6, 2009, we filed a Registration Statement on Form S-11 with the United States Securities and Exchange Commission, or the SEC, with respect to a proposed follow-on public offering, or our follow-on offering, of up to 221,052,632 shares of our common stock. Our follow-on offering would include up to 200,000,000 shares of our common stock to be offered for sale at $10.00 per share and up to 21,052,632 shares of our common stock to be offered for sale pursuant to the DRIP at $9.50 per share. We have not issued any shares under this Registration Statement as it has not been declared effective by the SEC.

We conduct substantially all of our operations through Grubb & Ellis Healthcare REIT Holdings, L.P., to be named Healthcare Trust of America Holdings, LP, or our operating partnership. Our internal management team manages our day-to-day operations and oversees and supervises our employees and outside service providers. Grubb & Ellis Healthcare REIT Advisor, LLC, or our advisor, provides certain accounting, asset management, acquisition and other services to us pursuant to an advisory agreement, as amended and restated on November 14, 2008 and effective as of October 24, 2008, or the Advisory Agreement, between us, our advisor and Grubb & Ellis Realty Investors, LLC, or Grubb & Ellis Realty Investors, who is the managing member of our advisor. Our advisor is affiliated with us in that we and our advisor have a common officer, who also owns an indirect equity interest in our advisor. Our advisor engages affiliated entities, including but not limited to Triple Net Properties Realty, Inc., or Realty, and Grubb & Ellis Management Services, Inc. to provide various services to us, including but not limited to property management and leasing services.

The Advisory Agreement expires on September 20, 2009. Our main objectives in amending the Advisory Agreement were to reduce acquisition and asset management fees, eliminate internalization fees and to set the framework for our transition to self-management. Under the Advisory Agreement, our advisor agreed to use reasonable efforts to

cooperate with us as we pursue a self-management program. Upon or prior to completion of our transition to self-management which we expect to complete by September 20, 2009 and/or the termination of the Advisory Agreement, we will no longer be advised by our advisor or consider our company to be sponsored by Grubb & Ellis Company, or Grubb & Ellis.

Self-management is a corporate model based on internal management rather than external management. In general, non-traded REIT s are externally managed. With external management, a REIT is dependent upon an

Grubb & Ellis Healthcare REIT, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

external advisor. An externally-managed REIT typically pays acquisition fees, asset management fees, property management fees and other fees to its advisor for services provided as we do under our Advisory Agreement. In contrast, under our self-management program, we will be managed internally by our management team led by Scott D. Peters, our Chief Executive Officer, President and Chairman of the board of directors, under the direction of our board of directors. With a self-managed REIT, fees paid to third parties are expected to be substantially reduced. By pursuing self-management, we have effectively eliminated the potential need for us to pay any fee to our advisor in the future to internalize certain of the functions that they currently provide to us.

We anticipate that the various costs of self-management will also be mitigated by the substantial reduction of the acquisition fees and the asset management fees payable to our advisor under the Advisory Agreement, as amended November 14, 2008.

As of March 31, 2009, we had purchased 43 geographically diverse properties comprising 5,355,000 square feet of gross leasable area, or GLA, and one real estate related asset, for an aggregate purchase price of $1,002,795,000.

Our principal executive offices are located at 16427 N. Scottsdale Road, Suite 440, Scottsdale, Arizona, 85254 and the telephone number is (480) 998-3478. For investor services, please contact Grubb & Ellis Realty Investors at 1551 N. Tustin Avenue, Suite 300, Santa Ana, California, 92705 or by telephone at (877)-888-7348 or (714) 667-8252.

2. Summary of Significant Accounting Policies

The summary of significant accounting policies presented below is designed to assist in understanding our interim unaudited condensed consolidated financial statements. Such interim unaudited condensed consolidated financial statements and the accompanying notes thereto are the representations of our management, who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America, or GAAP, in all material respects, and have been consistently applied in preparing our accompanying interim unaudited condensed consolidated financial statements.

Basis of Presentation

Our accompanying interim unaudited condensed consolidated financial statements include our accounts and those of our operating partnership, the wholly owned subsidiaries of our operating partnership and any variable interest entities, as defined in Financial Accounting Standards Board Interpretation, or FIN, No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51,* as revised, or FIN No. 46(R), that we have concluded should be consolidated. We operate in an umbrella partnership REIT structure in which wholly owned subsidiaries of our operating partnership own all of the properties acquired on our behalf. We are the sole general partner of our operating partnership and as of March 31, 2009 and December 31, 2008, we owned greater than a 99.99% general partnership interest in our operating partnership. Our advisor is a limited partner of our operating partnership and as of March 31, 2009 and December 31, 2008, owned less than a 0.01% limited partnership interest in our operating partnership. Our advisor is also entitled to certain subordinated distribution rights under the partnership agreement for our operating partnership. Because we are the sole general partner of our operating partnership and have unilateral control over its management and major operating decisions (even if additional limited partners are admitted to our operating partnership), the accounts of our operating partnership are consolidated in our consolidated financial statements. All significant intercompany accounts and transactions are eliminated in consolidation.

Interim Financial Data

Our accompanying interim unaudited condensed consolidated financial statements have been prepared by us in accordance with GAAP in conjunction with the rules and regulations of the SEC. Certain information and footnote disclosures required for annual financial statements have been condensed or excluded pursuant to SEC rules and regulations. Accordingly, our accompanying interim unaudited condensed consolidated financial statements do not

Grubb & Ellis Healthcare REIT, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

include all of the information and footnotes required by GAAP for complete financial statements. Our accompanying interim unaudited condensed consolidated financial statements reflect all adjustments, which are, in our opinion, of a normal recurring nature and necessary for a fair presentation of our financial position, results of operations and cash flows for the interim period. Interim results of operations are not necessarily indicative of the results to be expected for the full year; such results may be less favorable. Our accompanying interim unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and the notes thereto included in our 2008 Annual Report on Form 10-K, as filed with the SEC on March 27, 2009.

Cash and Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments with a maturity of three months or less when purchased. Cash and cash equivalents of $255,068,000 and $128,331,000, includes approximately $148,998,000 and $0 in short-term U.S. Treasury bills as of March 31, 2009 and December 31, 2008, respectively. We account for short-term investments in accordance with the Financial Accounting Standards Board, or FASB, Statement of Financial Accounting Standards, or SFAS, No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. We determine the appropriate classification of all short-term investments as held-to-maturity, available-for-sale, or trading at the time of purchase and re-evaluate such classification as of each balance sheet date. The U.S. Treasury bills are considered held-to-maturity as of March 31, 2009 and mature in April 2009.

Segment Disclosure

The FASB issued SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, which establishes standards for reporting financial and descriptive information about an enterprise s reportable segments. We have determined that we have one reportable segment, with activities related to investing in medical office buildings, healthcare related facilities, quality commercial office properties and other real estate related assets. Our investments in real estate and real estate related assets are geographically diversified and management evaluates operating performance on an individual portfolio level. However, as each of our assets has similar economic characteristics, tenants, and products and services, our assets have been aggregated into one reportable segment for the three months ended March 31, 2009 and 2008.

Recently Issued Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements,* or SFAS No. 157. SFAS No. 157, which has been applied to other accounting pronouncements that require or permit fair value measurements, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and provides for expanded disclosure about fair value measurements. SFAS No. 157 was issued to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position, or FSP, SFAS No. 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13,* or FSP SFAS No. 157-1. FSP SFAS No. 157-1 excludes from the scope of SFAS No. 157 certain leasing transactions accounted for under SFAS No. 13, *Accounting for Leases*. In February 2008, the FASB also issued FSP SFAS No. 157-2, *Effective Date of FASB Statement No. 157,* or FSP SFAS No. 157-2. FSP SFAS No. 157-2 defers the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years beginning after November 1, 2008. In October 2008, the FASB issued FSP

SFAS No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, or FSP SFAS No. 157-3. FSP SFAS No. 157-3 amends SFAS No. 157 by providing an example to illustrate key considerations and the emphasis on measurement principles when applying SFAS No. 157 to financial assets when the market for those financial assets is not active. We adopted SFAS No. 157 and FSP SFAS No. 157-1 on a prospective basis on January 1, 2008. The adoption of SFAS No. 157 and FSP SFAS No. 157-1 did not have a material impact on our consolidated financial statements except with regards to enhanced disclosures (see Note 8, Derivative Financial Instruments). We adopted FSP SFAS No. 157-2 on a prospective basis on January 1, 2009. The implementation of FSP SFAS No. 157-2 did not

Grubb & Ellis Healthcare REIT, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

have a material effect on the methods or processes we use to value these non-financial assets and non-financial liabilities or information disclosed. We adopted FSP SFAS No. 157-3 upon issuance, which did not have a material impact on our consolidated financial statements.

FSP FAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,* relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms what SFAS No. 157 states is the objective of fair value measurement to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. We have adopted this guidance in making our fair value measurements as of January 1, 2009, and it did not have a significant impact on those measurements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* or SFAS No. 159. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of the guidance is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. We adopted SFAS No. 159 on a prospective basis on January 1, 2008. The adoption of SFAS No. 159 did not have a material impact on our consolidated financial statements since we did not elect to apply the fair value option for any of our eligible financial instruments or other items on the January 1, 2008 effective date.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations,* or SFAS No. 141(R), and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51,* or SFAS No. 160. SFAS No. 141(R) and SFAS No. 160 significantly changed the accounting for, and reporting of, business combination transactions and noncontrolling (minority) interests in consolidated financial statements. SFAS No. 141(R) requires an acquiring entity to recognize acquired assets and liabilities assumed in a transaction at fair value as of the acquisition date, changes the disclosure requirements for business combination transactions and changes the accounting treatment for certain items, including contingent consideration agreements which are required to be recorded at acquisition date fair value and acquisition costs which are required to be expensed as incurred. SFAS No. 160 requires that noncontrolling interests be presented as a component of consolidated stockholders equity, eliminates minority interest accounting such that the amount of net income attributable to the noncontrolling interests are presented as part of consolidated net income in our accompanying consolidated statements of operations and not as a separate component of income and expense, and requires that upon any changes in ownership that result in the loss of control of the subsidiary, the noncontrolling interest be re-measured at fair value with the resultant gain or loss recorded in net income. SFAS No. 141(R) and SFAS No. 160 require simultaneous adoption and are to be applied prospectively for the first annual reporting period beginning on or after December 15, 2008. Early adoption of either standard is prohibited. We have adopted SFAS No. 141(R) on a prospective basis on January 1, 2009. The adoption of SFAS No. 141(R) has a material impact on our results of operations when we acquire real estate properties. We have adopted SFAS No. 160 on a prospective basis on January 1, 2009, except for the presentation and disclosure requirements which were applied retrospectively for all periods presented. The adoption of SFAS No. 160 had an impact on the presentation and disclosure of noncontrolling (minority) interests in our condensed consolidated financial statements. As a result of the retrospective presentation and disclosure requirements of SFAS No. 160, we are required to reflect the change in presentation and disclosure for all periods presented. The principal effect on the

consolidated balance sheet as of December 31, 2008 related to the adoption of SFAS No. 160 was the change in presentation of the mezzanine section of the minority interest of limited partner in operating partnership of $1,000 and the minority interest of limited partner of $1,950,000, as previously reported, to redeemable noncontrolling interest of limited partners of $1,951,000, as reported herein. Additionally, the adoption of SFAS No. 160 had the effect of reclassifying (income) loss attributable to noncontrolling interest in the consolidated statements of operations from minority interest to separate line items. SFAS No. 160 also requires that net income (loss) be adjusted to include the net (income) loss attributable to the noncontrolling interest, and a new line item for net income (loss) attributable to controlling interest be presented in the condensed consolidated statements of operations. Thus, after adoption of

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SFAS No. 160 net loss for the three months ended March 31, 2008 of $(6,610,000), as previously reported, changed to net loss of $(6,689,000), as reported herein, and net loss attributable to controlling interest is equal to net loss as previously reported prior to the adoption of SFAS No. 160.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, or SFAS No. 161. SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance and cash flows. SFAS No. 161 achieves these improvements by requiring disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. SFAS No. 161 also provides more information about an entity s liquidity by requiring disclosure of derivative features that are credit risk-related. Finally, SFAS No. 161 requires cross-referencing within footnotes to enable financial statement users to locate important information about derivative instruments. SFAS No. 161 is effective for quarterly interim periods beginning after November 15, 2008, and fiscal years that include those quarterly interim periods, with early application encouraged. We adopted SFAS No. 161 on a prospective basis on January 1, 2009. The adoption of SFAS No. 161 did not have a material impact on our consolidated financial statements.

In April 2008, the FASB issued FSP SFAS No. 142-3, *Determination of the Useful Life of Intangible Assets,* or FSP SFAS No. 142-3. FSP SFAS No. 142-3 is intended to improve the consistency between the useful life of recognized intangible assets under SFAS No. 142, *Goodwill and Other Intangible Assets,* or SFAS No. 142, and the period of expected cash flows used to measure the fair value of the assets under SFAS No. 141(R). FSP SFAS No. 142-3 amends the factors an entity should consider in developing renewal or extension assumptions in determining the useful life of recognized intangible assets. FSP SFAS No. 142-3 requires an entity to consider its own historical experience in renewing or extending similar arrangements, or to consider market participant assumptions consistent with the highest and best use of the assets if relevant historical experience does not exist. In addition to the required disclosures under SFAS No. 142, FSP SFAS No. 142-3 requires disclosure of the entity s accounting policy regarding costs incurred to renew or extend the term of recognized intangible assets, the weighted average period to the next renewal or extension, and the total amount of capitalized costs incurred to renew or extend the term of recognized intangible assets. FSP SFAS No. 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. While the standard for determining the useful life of recognized intangible assets is to be applied prospectively only to intangible assets acquired after the effective date, the disclosure requirements shall be applied prospectively to all recognized intangible assets as of, and subsequent to, the effective date. Early adoption is prohibited. We have adopted FSP SFAS No. 142-3 on prospective basis on January 1, 2009. The adoption of FSP SFAS No. 142-3 did not have a material impact on our consolidated financial statements.

In June 2008, the FASB issued FSP Emerging Issues Task Force, or EITF, Issue No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities,* or FSP EITF No. 03-6-1. FSP EITF No. 03-6-1 addresses whether instruments granted by an entity in share-based payment transactions should be considered as participating securities prior to vesting and, therefore, should be included in the earnings allocation in computing earnings per share under the two-class method described in paragraphs 60 and 61 of FASB Statement No. 128, *Earnings per Share.* FSP EITF No. 03-6-1 clarifies that instruments granted in share-based payment transactions can be participating securities prior to vesting (that is, awards for which the requisite service had not yet been rendered). Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF No. 03-6-1 requires us to retrospectively adjust our earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data) to

conform to the provisions of FSP EITF No. 03-6-1. We adopted FSP EITF No. 03-6-1 on January 1, 2009. The adoption of FSP EITF No. 03-6-1 did not have a material impact on our consolidated financial statements because we do not have any material share-based payment transactions.

In April 2009, the FASB issued FSP FAS No. 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments,* or FSP FAS No. 107-1 and APB Opinion No. 28-1. FSP SFAS No. 107-1 and APB Opinion No. 28-1 relates to fair value disclosures for any financial instruments that are not currently reflected on the

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balance sheet at fair value. Prior to issuing this FSP, fair values for these assets and liabilities were only disclosed once a year. The FSP now requires these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. We early adopted FSP SFAS No. 107-1 and APB Opinion No. 28-1 on a prospective basis on January 1, 2009, which did not have a material impact on our consolidated financial statements. We have provided these disclosures in Note 16, Fair Value of Financial Instruments.

FSP FAS No. 115-2 and FAS No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments,* or FSP FAS No. 115-2, is intended to bring greater consistency to the timing of impairment recognition, and provide greater clarity to investors about the credit and noncredit components of impaired debt securities that are not expected to be sold. FSP FAS No. 115-2 also requires increased and more timely disclosures regarding expected cash flows, credit losses, and an aging of securities with unrealized losses. We adopted FSP FAS No. 115-2 on January 1, 2009 and it did not have a material impact on the condensed consolidated financial statements.

3. Real Estate Investments

Our investments in our consolidated properties consisted of the following as of March 31, 2009 and December 31, 2008:

	March 31, 2009	December 31, 2008
Land	$ 109,370,000	$ 107,389,000
Building and improvements	756,970,000	728,171,000
Furniture and equipment	10,000	10,000
	866,350,000	835,570,000
Less: accumulated depreciation	(31,821,000)	(24,650,000)
	$ 834,529,000	$ 810,920,000

Depreciation expense for the three months ended March 31, 2009 and 2008 was $7,528,000 and $3,351,000, respectively.

Acquisitions in 2009

During the three months ended March 31, 2009, we completed the acquisition of one property and two office condominiums related to two existing properties in our portfolio. The aggregate purchase price of these properties was $36,379,000. These properties were purchased with funds raised from our offering. We paid $909,000 in acquisition fees to our advisor and its affiliates in connection with these acquisitions. As a result of the adoption of SFAS No. 141(R) on January 1, 2009, the fees were expensed and included in general and administrative in our accompanying condensed consolidated statements of operations.

Property	**Property Location**	**Date Acquired**	**Ownership Percentage**	**Purchase Price**	**Mortgage Loan Payables**(1)	**Fee to our Advisor and its Affiliate**(2)
Lima Medical Office Portfolio(3)	Lima, OH	01/16/09	100%	$ 385,000	$	$ 9,000
Wisconsin Medical Office Buildings Portfolio	Menomonee Falls, Mequon, Milwaukee and Richfield, WI	02/27/09	100%	33,719,000		843,000
Mountain Empire Portfolio(3)	Rogersville, TN	03/27/09	100%	2,275,000	1,696,000	57,000
Total				$ 36,379,000	$ 1,696,000	$ 909,000

(1) Represents the amount of the mortgage loan payable assumed by us or newly placed on the property in connection with the acquisition or secured by the property subsequent to acquisition.

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(2) Our advisor or its affiliates receive, as compensation for services rendered in connection with the investigation, selection and acquisition of our properties, an acquisition fee of up to 2.5% of the contract purchase price for each property acquired.

(3) This acquisition was an office condominium related to an existing property in our portfolio.

4. Real Estate Note Receivables, Net

Real estate note receivables, net consisted of the following as of March 31, 2009 and December 31, 2008:

Property Name and Location	Property Type	Interest Rate	Maturity Date	March 31, 2009	December 31, 2008
MacNeal Hospital Medical Office Building Berwyn, Illinois	Medical Office Building	5.95%	11/01/11	$ 7,500,000	$ 7,500,000
MacNeal Hospital Medical Office Building Berwyn, Illinois	Medical Office Building	5.95%	11/01/11	7,500,000	7,500,000
St. Luke s Medical Office Building Phoenix, Arizona	Medical Office Building	5.85%	11/01/11	3,750,000	3,750,000
St. Luke s Medical Office Building Phoenix, Arizona	Medical Office Building	5.85%	11/01/11	1,250,000	1,250,000
				20,000,000	20,000,000
Add: closing costs, net				334,000	360,000
Less: discount, net				(4,645,000)	(5,000,000)
Real estate note receivables, net				$ 15,689,000	$ 15,360,000

5. Identified Intangible Assets, Net

Identified intangible assets consisted of the following as of March 31, 2009 and December 31, 2008:

	March 31, 2009	December 31, 2008
In place leases, net of accumulated amortization of $15,909,000 and $13,350,000 as of March 31, 2009 and December 31, 2008,	$ 54,589,000	$ 55,144,000

respectively, (with a weighted average remaining life of 7.9 years and 7.6 years as of March 31, 2009 and December 31, 2008, respectively)				
Above market leases, net of accumulated amortization of $1,833,000 and $1,513,000 as of March 31, 2009 and December 31, 2008, respectively, (with a weighted average remaining life of 8.1 years and 8.3 years as of March 31, 2009 and December 31, 2008, respectively)		9,998,000		10,482,000
Tenant relationships, net of accumulated amortization of $8,172,000 and $6,479,000 as of March 31, 2009 and December 31, 2008, respectively, (with a weighted average remaining life of 12.2 years and 11.7 years as of March 31, 2009 and December 31, 2008, respectively)		65,898,000		64,881,000
Leasehold interests, net of accumulated amortization of $57,000 and $45,000 as of March 31, 2009 and December 31, 2008, respectively, (with a weighted average remaining life of 81.1 years and 81.8 years as of March 31, 2009 and December 31, 2008, respectively)		4,154,000		3,998,000
Master lease, net of accumulated amortization of $275,000 and $231,000 as of March 31, 2009 and December 31, 2008, respectively, (with a weighted average remaining life of 6 months and 8 months as of March 31, 2009 and December 31, 2008, respectively)		74,000		118,000
	$	134,713,000	$	134,623,000

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Amortization expense recorded on the identified intangible assets for the three months ended March 31, 2009 and 2008 was $6,216,000 and $3,077,000, respectively, which included $484,000 and $176,000, respectively, of amortization recorded against rental income for above market leases and $13,000 and $9,000, respectively, of amortization recorded against rental expenses for leasehold interests in our accompanying condensed consolidated statements of operations.

6. Other Assets, Net

Other assets consisted of the following as of March 31, 2009 and December 31, 2008:

	March 31, 2009	December 31, 2008
Deferred financing costs, net of accumulated amortization of $1,927,000 and $1,461,000 as of March 31, 2009 and December 31, 2008, respectively	$ 4,320,000	$ 4,751,000
Lease commissions, net of accumulated amortization of $149,000 and $99,000 as of March 31, 2009 and December 31, 2008, respectively	1,133,000	1,009,000
Lease inducements, net of accumulated amortization of $131,000 and $107,000 as of March 31, 2009 and December 31, 2008, respectively	729,000	753,000
Deferred rent receivable	5,005,000	3,928,000
Prepaid expenses, deposits and other	1,547,000	1,073,000
	$ 12,734,000	$ 11,514,000

Amortization expense recorded on deferred financing costs, lease commissions, lease inducements and other assets for the three months ended March 31, 2009 and 2008 was $542,000 and $219,000, respectively, of which $465,000 and $188,000, respectively, of amortization was recorded against interest expense for deferred financing costs and $24,000 and $21,000, respectively, of amortization was recorded against rental income for lease inducements in our accompanying condensed consolidated statements of operations.

7. Mortgage Loan Payables, Net

Mortgage Loan Payables

Mortgage loan payables were $455,317,000 ($453,606,000, net of discount) and $462,542,000 ($460,762,000, net of discount) as of March 31, 2009 and December 31, 2008, respectively. As of March 31, 2009, we had fixed and variable rate mortgage loans with effective interest rates ranging from 1.91% to 12.75% per annum and a weighted average effective interest rate of 3.78% per annum. As of March 31, 2009, we had $132,505,000 ($130,794,000, net of discount) of fixed rate debt, or 29.1% of mortgage loan payables, at a weighted average interest rate of 5.76% per annum and $322,812,000 of variable rate debt, or 70.9% of mortgage loan payables, at a weighted average interest rate of 2.97% per annum. As of December 31, 2008, we had fixed and variable rate mortgage loans with effective interest rates ranging from 1.90% to 12.75% per annum and a weighted average effective interest rate of 4.07% per annum. As of December 31, 2008, we had $141,058,000 ($139,278,000 net of discount) of fixed rate debt, or 30.5%

of mortgage loan payables, at a weighted average interest rate of 5.76% per annum and $321,484,000 of variable rate debt, or 69.5% of mortgage loan payables, at a weighted average interest rate of 3.33% per annum. We are required by the terms of the applicable loan documents to meet certain financial covenants, such as debt service coverage ratios, rent coverage ratios and reporting requirements. As of March 31, 2009 and December 31, 2008, we were in compliance with all such covenants and requirements.

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Mortgage loan payables consisted of the following as of March 31, 2009 and December 31, 2008:

Property	Interest Rate	Maturity Date	March 31, 2009	December 31, 2008
Fixed Rate Debt:				
Southpointe Office Parke and Epler Parke I	6.11%	09/01/16	$ 9,146,000	$ 9,146,000
Crawfordsville Medical Office Park and Athens Surgery Center	6.12%	10/01/16	4,264,000	4,264,000
The Gallery Professional Building	5.76%	03/01/17	6,000,000	6,000,000
Lenox Office Park, Building G	5.88%	02/01/17	12,000,000	12,000,000
Commons V Medical Office Building	5.54%	06/11/17	9,905,000	9,939,000
Yorktown Medical Center and Shakerag Medical Center	5.52%	05/11/17	13,530,000	13,530,000
Thunderbird Medical Plaza	5.67%	06/11/17	14,000,000	14,000,000
Gwinnett Professional Center	5.88%	01/01/14	5,587,000	5,604,000
St. Mary Physicians Center	5.80%	09/04/09		8,280,000
Northmeadow Medical Center	5.99%	12/01/14	7,829,000	7,866,000
Medical Portfolio 2	5.91%	07/01/13	14,360,000	14,408,000
Renaissance Medical Centre	5.38%	09/01/15	18,998,000	19,078,000
Renaissance Medical Centre	12.75%	09/01/15	1,244,000	1,245,000
Medical Portfolio 4	5.50%	06/01/19		