

Grubb & Ellis Healthcare REIT, Inc.

Form 424B3

August 15, 2008

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Registration No. 333-133652**

**GRUBB & ELLIS HEALTHCARE REIT, INC.**

**SUPPLEMENT NO. 13 DATED AUGUST 15, 2008  
TO THE PROSPECTUS DATED DECEMBER 14, 2007**

This document supplements, and should be read in conjunction with, our prospectus dated December 14, 2007, as supplemented by Supplement No. 11, dated July 21, 2008, and Supplement No. 12, dated July 31, 2008, relating to our offering of 221,052,632 shares of common stock. The purpose of this Supplement No. 13 is to disclose:

the status of our initial public offering;

changes to the suitability standards in the State of California;

information regarding excess sales of shares of our common stock in the State of Washington;

Management's Discussion and Analysis of Financial Condition and Results of Operations as of June 30, 2008 and for the three and six months ended June 30, 2008 and 2007; and

our unaudited financial statements as of June 30, 2008 and December 31, 2007 and for the three and six months ended June 30, 2008 and 2007.

**Status of Our Initial Public Offering**

As of July 31, 2008, we had received and accepted subscriptions in our offering for 44,348,425 shares of our common stock, or approximately \$443,006,000, excluding shares issued under our distribution reinvestment plan. As of July 31, 2008, approximately 155,651,575 shares remained available for sale to the public under our initial public offering, exclusive of shares available under our distribution reinvestment plan. We will sell shares in our offering until the earlier of September 20, 2009, or the date on which the maximum amount has been sold.

**Suitability Standards**

*California:* Investors who reside in the State of California must have either (1) a net worth of at least \$70,000 and an annual gross income of at least \$70,000, or (2) a net worth of at least \$250,000.

Additionally, the exemption for secondary trading under California Corporation Code Section 25104(h) will not be available to investors, although other exemptions may be available to cover private sales by the *bona fide* owner of shares for his or her or its own account without advertising and without being effected through a broker dealer in a public offering.

**Excess Sales in the State of Washington**

In July 2008, we sold \$931,355 in shares of our common stock in excess of the amount registered for sale in the State of Washington. We have since registered these shares. However, as a result of the sale of these excess shares, we may be subject to potential liability, including from investors who purchased such shares prior to their registration.



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### **Management's Discussion and Analysis of Financial Condition and Results of Operations**

*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.*

The following discussion should be read in conjunction with our interim unaudited condensed consolidated financial statements and notes appearing elsewhere in this supplement. Such consolidated financial statements and information have been prepared to reflect our financial position as of June 30, 2008 and December 31, 2007, together with our results of operations for the three and six months ended June 30, 2008 and 2007, and cash flows for the six months ended June 30, 2008 and 2007.

### **Forward-Looking Statements**

Historical results and trends should not be taken as indicative of future operations. Our statements contained in this supplement that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Actual results may differ materially from those included in the forward-looking statements. We intend those forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of complying with those safe-harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations, are generally identifiable by use of the words believe, expect, intend, anticipate, estimate, project, prospects, or similar expressions. Our ability to predict results or the actual of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on our operations and future prospects on a consolidated basis include, but are not limited to: changes in economic conditions generally and the real estate market specifically; legislative and regulatory changes, including changes to laws governing the taxation of real estate investment trusts, or REITs; the availability of capital; changes in interest rates; competition in the real estate industry; the supply and demand for operating properties in our proposed market areas; changes in accounting principles generally accepted in the United States of America, or GAAP, policies and guidelines applicable to REITs; and the availability of properties to acquire; the availability of financing; and our ongoing relationship with Grubb & Ellis Company, or Grubb & Ellis, or our sponsor, and its affiliates. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Additional information concerning us and our business, including additional factors that could materially affect our financial results, is included herein and in our other filings with the Securities and Exchange Commission, or the SEC.

### **Overview and Background**

Grubb & Ellis Healthcare REIT, Inc., a Maryland corporation, was incorporated on April 20, 2006. 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, healthcare related facilities and quality commercial office properties. We may also invest in real estate related securities. We focus primarily on investments that produce current income. We intend to elect to be treated as a REIT for federal income tax purposes beginning with our taxable year ended December 31, 2007 when we file our fiscal year 2007 tax return and 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 July 31, 2008, we had received and accepted subscriptions in our offering for 44,348,425 shares of our common

stock, or \$443,006,000, excluding shares of our common stock issued under the DRIP.

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We conduct substantially all of our operations through Grubb & Ellis Healthcare REIT Holdings, L.P., or our operating partnership. We are externally advised by Grubb & Ellis Healthcare REIT Advisor, LLC, or our advisor, pursuant to an advisory agreement, 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. The Advisory Agreement has a one year term that expires on October 24, 2008 and is subject to successive one year renewals upon the mutual consent of the parties. Our advisor supervises and manages our day-to-day operations and selects the properties and securities we acquire, subject to the oversight and approval by our board of directors. Our advisor also provides marketing, sales and client services on our behalf. Our advisor is affiliated with us in that we and our advisor have common officers, some of whom also own an indirect equity interest in our advisor. Our advisor engages affiliated entities, including Triple Net Properties Realty, Inc., or Realty, and Grubb & Ellis Management Services, Inc. to provide various services to us, including property management services.

On December 7, 2007, NNN Realty Advisors, Inc., or NNN Realty Advisors, which previously served as our sponsor, merged with and into a wholly owned subsidiary of Grubb & Ellis. The transaction was structured as a reverse merger whereby stockholders of NNN Realty Advisors received shares of common stock of Grubb & Ellis in exchange for their NNN Realty Advisors shares of common stock and, immediately following the merger, former NNN Realty Advisors stockholders held approximately 59.5% of the common stock of Grubb & Ellis. As a result of the merger, we consider Grubb & Ellis to be our sponsor. Following the merger, NNN Healthcare/Office REIT, Inc., NNN Healthcare/Office REIT Holdings, L.P., NNN Healthcare/Office REIT Advisor, LLC, NNN Healthcare/Office Management, LLC, Triple Net Properties, LLC and NNN Capital Corp. changed their names to Grubb & Ellis Healthcare REIT, Inc., Grubb & Ellis Healthcare REIT Holdings, L.P., Grubb & Ellis Healthcare REIT Advisor, LLC, Grubb & Ellis Healthcare Management, LLC, Grubb & Ellis Realty Investors, LLC and Grubb & Ellis Securities, Inc., respectively.

As of June 30, 2008, we had purchased 36 properties comprising 4,215,000 square feet of gross leasable area, or GLA, for an aggregate purchase price of \$790,366,000.

## **Critical Accounting Policies**

The complete listing of our Critical Accounting Policies was previously disclosed in our 2007 Annual Report on Form 10-K, as filed with the SEC, which is incorporated by reference into Supplement No. 11 filed with Post Effective Amendment No. 8 to our Registration Statement on Form S-11, and there have been no material changes to our Critical Accounting Policies as disclosed therein.

## ***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 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 2007 Annual Report on Form 10-K, as filed with the SEC, which is incorporated by reference into Supplement No. 11 filed with Post Effective Amendment No. 8 to our Registration Statement on Form S-11.

**Recently Issued Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 157, *Fair Value Measurements*, or SFAS No. 157. SFAS No. 157, which will be applied to other accounting pronouncements that require or permit fair value measurements, defines

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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 157-1. FSP SFAS 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 157-2. FSP SFAS 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. We adopted SFAS No. 157 and FSP SFAS 157-1 on a prospective basis on January 1, 2008. The adoption of SFAS No. 157 and FSP SFAS 157-1 did not have a material impact on our consolidated financial statements except with regards to enhanced disclosures. We are evaluating the impact that SFAS No. 157 will have on our non-financial assets and non-financial liabilities since the application of SFAS No. 157 for such items was deferred to January 1, 2009 by FSP SFAS 157-2, and we have not yet determined the impact the adoption will have on our consolidated financial statements.

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 will significantly change 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 will be required to be recorded at acquisition date fair value and acquisition costs which will be 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 will be presented as part of consolidated net income in our accompanying condensed 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 will adopt SFAS No. 141(R) and SFAS No. 160 on January 1, 2009. We are evaluating the impact of SFAS No. 141(R) and SFAS No. 160 and have not yet determined the impact the adoption will have on our consolidated financial statements.

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

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cross-referencing within footnotes to enable financial statement users to locate important information about derivative instruments. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We will adopt SFAS No. 161 on January 1, 2009. The adoption of SFAS No. 161 is not expected to 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 142-3. FSP SFAS 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 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 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 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 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 will adopt FSP SFAS 142-3 on January 1, 2009. The adoption of FSP SFAS 142-3 is not expected to 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 03-6-1. FSP EITF 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 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 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 03-6-1. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early adoption is prohibited. We will adopt FSP EITF 03-6-1 on January 1, 2009. The adoption of FSP EITF 03-6-1 is not expected to have a material impact on our consolidated financial statements.

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During the six months ended June 30, 2008, we completed the acquisition of 16 properties. The aggregate purchase price of these properties was \$381,926,000, of which \$209,284,000 was financed with property secured mortgage debt (See Capital Resources Financing Mortgage Loan Payables), \$171,685,000 was financed through our secured revolving line of credit with LaSalle Bank National Association, or LaSalle, and KeyBank National Association, or KeyBank, or our secured revolving line of credit with LaSalle and KeyBank, (See Capital Resources Financing Line of Credit) and \$6,000,000 was financed through an unsecured note payable to NNN Realty Advisors (See Capital Resources Financing Unsecured Note Payable to Affiliate). We paid \$11,460,000 of acquisition fees to our advisor and its affiliates in connection with these acquisitions.

Property	Property Location	Date Acquired	Ownership Percentage	Purchase Price	Borrowings Incurred in Connection with the Acquisition			Acquisition Fee to Advisor or Affiliate
					Mortgage Loan Payables(1)	Line of Credit(2)	Unsecured Note Payable to Affiliate(3)	
Portfolio	Overland, KS and Largo, Brandon and Lakeland, FL	02/01/08	100%	\$ 36,950,000	\$ 22,000,000	\$ 16,000,000	\$	\$ 1,100,000
Medical	St. Paul, MN	03/06/08	100%	8,650,000	5,800,000	3,000,000		200,000
Falls Plaza	Liberty Township, OH	03/19/08	100%	8,150,000		7,600,000		200,000
Marke B Station Office	Indianapolis, IN	03/24/08	100%	5,850,000	3,861,000	6,100,000		100,000
Professional	Houston, TX	03/25/08	100%	11,200,000	7,300,000	4,500,000		300,000
Professional	Lakeland, FL	03/27/08	100%	5,250,000		5,300,000		100,000
Professional	Arlington, Galveston, Port Arthur and Texas City, TX and Lomita and El Monte, CA	Various	100%	39,600,000	18,000,000	14,800,000	6,000,000	1,100,000
Hospital	Amarillo, TX	05/15/08	100%	20,000,000		20,000,000		600,000
Plaza Drive	Cypress, CA	05/29/08	100%	25,700,000	16,830,000	26,050,000		700,000
Professional	Derry, NH	06/03/08	100%	14,200,000	8,808,000	14,800,000		400,000
Professional	Stockbridge, GA	06/24/08	100%	21,176,000	12,870,000			600,000
Portfolio	Indianapolis, IN	06/26/08	100%	90,100,000	58,000,000	32,735,000		2,700,000

y Medical	Tucson, AZ	06/26/08	100%	8,100,000	5,016,000	8,200,000				
Medical	Decatur, GA	06/27/08	100%	12,000,000		12,600,000				
Portfolio	O Fallon and St. Louis, MO and Keller and Wichita Falls, TX	Various	100%	44,800,000	30,304,000					
nce Centre	Bountiful, UT	06/30/08	100%	30,200,000	20,495,000					
				\$ 381,926,000	\$ 209,284,000	\$ 171,685,000	\$ 6,000,000	\$ 11,4		

- (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 on the property subsequent to acquisition.
- (2) Borrowings under our secured revolving line of credit with LaSalle and KeyBank.
- (3) Represents our unsecured note payable to affiliate evidenced by an unsecured promissory note. Our unsecured note payable to affiliate bears interest at a fixed rate and requires monthly interest-only payments for the term of the unsecured note payable to affiliate.
- (4) 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 3.0% of the contract purchase price for each property acquired.

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**Factors Which May Influence Results of Operations**

***Rental Income***

The amount of rental income generated by our properties depends principally on our ability to maintain the occupancy rates of currently leased space, to lease currently available space and space available from unscheduled lease terminations at the existing rental rates. Negative trends in one or more of these factors could adversely affect our rental income in future periods.

***Offering Proceeds***

If we fail to continue to raise proceeds under our offering, we will be limited in our ability to invest in a diversified real estate portfolio which could result in increased exposure to local and regional economic downturns and the poor performance of one or more of our properties and, therefore, expose our stockholders to increased risk. In addition, many of our general and administrative expenses are fixed regardless of the size of our real estate portfolio. Therefore, depending on the amount of offering proceeds we raise, we would expend a larger portion of our income on operating expenses. This would reduce our profitability and, in turn, the amount of net income available for distribution to our stockholders.

***Scheduled Lease Expirations***

As of June 30, 2008, our consolidated properties were 91.2% occupied. During the remainder of 2008, 9.0% of the occupied GLA will expire. Our leasing strategy for 2008 focuses on negotiating renewals for leases scheduled to expire during the remainder of the year. If we are unable to negotiate such renewals, we will try to identify new tenants or collaborate with existing tenants who are seeking additional space to occupy. Of the leases expiring in 2008, we anticipate, but cannot assure, that a majority of the tenants will renew for another term.

***Sarbanes-Oxley Act***

The Sarbanes-Oxley Act of 2002, as amended, or the Sarbanes-Oxley Act, and related laws, regulations and standards relating to corporate governance and disclosure requirements applicable to public companies, have increased the costs of compliance with corporate governance, reporting and disclosure practices which are now required of us. These costs may have a material adverse effect on our results of operations and could impact our ability to continue to pay distributions at current rates to our stockholders. Furthermore, we expect that these costs will increase in the future due to our continuing implementation of compliance programs mandated by these requirements. Any increased costs may affect our ability to distribute funds to our stockholders. As part of our compliance with the Sarbanes-Oxley Act, we provided management's assessment of our internal control over financial reporting as of December 31, 2007 and continue to comply with such regulations.

In addition, these laws, rules and regulations create new legal bases for potential administrative enforcement, civil and criminal proceedings against us in the event of non-compliance, thereby increasing the risks of liability and potential sanctions against us. We expect that our efforts to comply with these laws and regulations will continue to involve significant and potentially increasing costs, and that our failure to comply with these laws could result in fees, fines, penalties or administrative remedies against us.

**Results of Operations**

***Comparison of the Three and Six Months Ended June 30, 2008 and 2007***

Our operating results are primarily comprised of income derived from our portfolio of properties.

We are not aware of any material trends or uncertainties, other than national economic conditions affecting real estate generally, the financial impact of the downturn of the credit markets, and those Risk Factors previously disclosed in our prospectus filed with the SEC, that may reasonably be expected to have a material impact, favorable or unfavorable, on revenues or income from the acquisition, management and operation of our properties.

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Except where otherwise noted, the change in our results of operations is due to owning 36 properties as of June 30, 2008, as compared to owning eight properties as of June 30, 2007.

*Rental Income*

For the three months ended June 30, 2008, rental income was \$16,273,000 as compared to \$3,183,000 for the three months ended June 30, 2007. For the three months ended June 30, 2008, rental income was primarily comprised of base rent of \$12,002,000 and expense recoveries of \$3,342,000. For the three months ended June 30, 2007, rental income was primarily comprised of base rent of \$2,277,000 and expense recoveries of \$838,000.

For the six months ended June 30, 2008, rental income was \$29,390,000 as compared to \$3,924,000 for the six months ended June 30, 2007. For the six months ended June 30, 2008, rental income was primarily comprised of base rent of \$21,894,000 and expense recoveries of \$5,783,000. For the six months ended June 30, 2007, rental income was primarily comprised of base rent of \$2,774,000 and expense recoveries of \$1,063,000.

The aggregate occupancy for our properties was 91.2% as of June 30, 2008 as compared to 89.0% as of June 30, 2007.

*Rental Expenses*

For the three months ended June 30, 2008, rental expenses were \$5,444,000 as compared to \$1,205,000 for the three months ended June 30, 2007. For the three months ended June 30, 2008, rental expenses were primarily comprised of real estate taxes of \$2,227,000, utilities of \$945,000, building maintenance of \$926,000 and property management fees of \$443,000. For the three months ended June 30, 2007, rental expenses were primarily comprised of utilities of \$336,000, building maintenance of \$303,000, real estate taxes of \$301,000, grounds maintenance of \$111,000 and property management fees of \$94,000.

For the six months ended June 30, 2008, rental expenses were \$9,912,000 as compared to \$1,503,000 for the six months ended June 30, 2007. For the six months ended June 30, 2008, rental expenses were primarily comprised of real estate taxes of \$3,796,000, utilities of \$1,801,000, building maintenance of \$1,624,000 and property management fees of \$839,000. For the six months ended June 30, 2007, rental expenses were primarily comprised of real estate taxes of \$417,000, utilities of \$396,000, building maintenance of \$359,000, grounds maintenance of \$127,000 and property management fees of \$123,000.

*General and Administrative*

For the three months ended June 30, 2008, general and administrative was \$2,195,000 as compared to \$659,000 for the three months ended June 30, 2007. For the three months ended June 30, 2008, general and administrative consisted primarily of asset management fees of \$1,486,000, bad debt expense of \$172,000, professional and legal fees of \$132,000 and acquisition related audit fees of \$40,000 to comply with the provisions of Article 3-14 of Regulation S-X. For the three months ended June 30, 2007, general and administrative consisted primarily of asset management fees of \$233,000, professional and legal fees of \$128,000, acquisition related audit fees of \$95,000 to comply with the provisions of Article 3-14 of Regulation S-X and director and officers insurance premiums of \$62,000.

For the six months ended June 30, 2008, general and administrative was \$4,043,000 as compared to \$1,022,000 for the six months ended June 30, 2007. For the six months ended June 30, 2008, general and administrative consisted primarily of asset management fees of \$2,622,000, professional and legal fees of \$514,000, acquisition related audit fees of \$122,000 to comply with the provisions of Article 3-14 of Regulation S-X and bad debt expense of \$230,000. For the six months ended June 30, 2007, general and administrative consisted primarily of asset management fees of

\$292,000, professional and legal fees of \$222,000, acquisition related audit fees of \$167,000 to comply with the provisions of Article 3-14 of Regulation S-X and director and officers insurance premiums of \$123,000.



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### *Depreciation and Amortization*

For the three months ended June 30, 2008, depreciation and amortization was \$7,439,000 as compared to \$1,862,000 for the three months ended June 30, 2007. For the three months ended June 30, 2008, depreciation and amortization was comprised of depreciation on our properties of \$4,076,000, amortization of identified intangible assets of \$3,345,000 and amortization of lease commissions of \$18,000. For the three months ended June 30, 2007, depreciation and amortization was comprised of amortization of identified intangible assets of \$1,081,000, depreciation on our properties of \$780,000 and amortization of lease commissions of \$1,000.

For the six months ended June 30, 2008, depreciation and amortization was \$13,692,000 as compared to \$2,204,000 for the six months ended June 30, 2007. For the six months ended June 30, 2008, depreciation and amortization was comprised of depreciation on our properties of \$7,427,000, amortization of identified intangible assets of \$6,237,000 and amortization of lease commissions of \$28,000. For the six months ended June 30, 2007, depreciation and amortization was comprised of amortization of identified intangible assets of \$1,302,000, depreciation on our properties of \$900,000 and amortization of lease commissions of \$2,000.

### *Interest Expense*

For the three months ended June 30, 2008, interest expense, was \$701,000 as compared to \$744,000 for the three months ended June 30, 2007. For the three months ended June 30, 2008, interest expense was related to interest expense on our mortgage loan payables and our secured revolving line of credit with LaSalle and KeyBank of \$3,874,000, interest expense on our unsecured note payable to affiliate of \$1,000, amortization of deferred financing fees associated with our line of credit of \$100,000, amortization of deferred financing fees of \$140,000, amortization of debt discount of \$4,000 and unused line of credit fees of \$14,000, partially offset by gains on derivative financial instruments of \$3,432,000 related to our interest rate swaps. For the three months ended June 30, 2007, interest expense was related to interest expense primarily on our mortgage loan payables of \$725,000, interest expense on our unsecured note payable to affiliate of \$6,000 and amortization of deferred financing fees associated with our mortgage loan payables of \$13,000.

For the six months ended June 30, 2008, interest expense was \$7,949,000 as compared to \$1,016,000 for the six months ended June 30, 2007. For the six months ended June 30, 2008, interest expense was related to interest expense on our mortgage loan payables and our secured revolving line of credit with LaSalle and KeyBank of \$7,375,000, interest expense on our unsecured note payable to affiliate of \$1,000, unused line of credit fees of \$33,000, losses on derivative financial instruments of \$104,000 related to our interest rate swaps, amortization of deferred financing fees associated with our line of credit of \$185,000, amortization of deferred financing fees associated with our mortgage loan payables of \$243,000 and amortization of debt discount of \$8,000. For the six months ended June 30, 2007, interest expense was related to interest expense primarily on our mortgage loan payables of \$923,000, interest expense on our unsecured note payable to affiliate of \$77,000 and amortization of deferred financing fees associated with our mortgage loan payables of \$16,000.

### *Interest and Dividend Income*

For the three months ended June 30, 2008, interest and dividend income was \$20,000 as compared to \$84,000 for the three months ended June 30, 2007. For the three months ended June 30, 2008 and 2007, interest and dividend income was related primarily to interest earned on our money market accounts. The decrease in interest and dividend income was due to lower cash balances for the three months ended June 30, 2008 as compared to the three months ended June 30, 2007.

For the six months ended June 30, 2008, interest and dividend income was \$31,000 as compared to \$85,000 for the six months ended June 30, 2007. For the six months ended June 30, 2008 and 2007, interest and dividend income was related primarily to interest earned on our money market accounts. The decrease in interest and dividend income was due to lower cash balances for the six months ended June 30, 2008 as compared to the six months ended June 30, 2007.

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### *Minority Interests*

For the three months ended June 30, 2008, minority interests were \$188,000 as compared to \$0 for the three months ended June 30, 2007. For the three months ended June 30, 2008, minority interests were primarily related to the minority interest owner's 20.0% share in Chesterfield Rehabilitation Center.

For the six months ended June 30, 2008, minority interests were \$109,000 as compared to \$0 for the six months ended June 30, 2007. For the six months ended June 30, 2008, minority interests were primarily related to the minority interest owner's 20.0% share in Chesterfield Rehabilitation Center.

### *Net Income (Loss)*

For the three months ended June 30, 2008, we had net income (loss) of \$326,000, or \$0.01 per basic and diluted share, as compared to \$(1,203,000), or \$(0.18) per basic and diluted share, for the three months ended June 30, 2007. The change from a net loss to net income was due to the factors discussed above.

For the six months ended June 30, 2008, we had a net income (loss) of \$(6,284,000), or \$(0.22) per basic and diluted share, as compared to \$(1,736,000), or \$(0.46) per basic and diluted share, for the six months ended June 30, 2007. The increase in net loss was due to the factors discussed above.

## **Liquidity and Capital Resources**

We are dependent upon the net proceeds from our offering to conduct our activities. The capital required to purchase real estate and real estate related securities is obtained from our offering and from any indebtedness that we may incur.

Our principal demands for funds will be for acquisitions of real estate and real estate related securities, to pay operating expenses and interest on our outstanding indebtedness and to make distributions to our stockholders. In addition, we will require resources to make certain payments to our advisor and our dealer manager, which during our offering include payments to our advisor and its affiliates for reimbursement of certain organizational and offering expenses and to our dealer manager and its affiliates for selling commissions, non-accountable marketing support fees and due diligence expense reimbursements.

Generally, cash needs for items other than acquisitions of real estate and real estate related securities will be met from operations, borrowing, and the net proceeds of our offering. We believe that these cash resources will be sufficient to satisfy our cash requirements for the foreseeable future, and we do not anticipate a need to raise funds from other than these sources within the next 12 months.

Our advisor evaluates potential additional investments and engages in negotiations with real estate sellers, developers, brokers, investment managers, lenders and others on our behalf. Until we invest the majority of the proceeds of our offering in properties and real estate related securities, we may invest in short-term, highly liquid or other authorized investments. Such short-term investments will not earn significant returns, and we cannot predict how long it will take to fully invest the proceeds in properties and real estate related securities. The number of properties we may acquire and other investments we will make will depend upon the number of our shares sold in our offering and the resulting amount of the net proceeds available for investment. However, there may be a delay between the sale of shares of our common stock and our investments in properties and real estate related securities, which could result in a delay in the benefits to our stockholders, if any, of returns generated from our investments' operations.

When we acquire a property, our advisor prepares a capital plan that contemplates the estimated capital needs of that investment. In addition to operating expenses, capital needs may also include costs of refurbishment, tenant

improvements or other major capital expenditures. The capital plan also sets forth the anticipated sources of the necessary capital, which may include a line of credit or other loan established with respect to the investment, operating cash generated by the investment, additional equity investments from us or joint venture partners or, when necessary, capital reserves. Any capital reserve would be established from the gross proceeds of our offering, proceeds from sales of other investments, operating cash generated by other investments or other cash on hand. In some cases, a lender may require us to establish capital reserves for a

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particular investment. The capital plan for each investment will be adjusted through ongoing, regular reviews of our portfolio or as necessary to respond to unanticipated additional capital needs.

### ***Other Liquidity Needs***

In the event that there is a shortfall in net cash available due to various factors, including, without limitation, the timing of distributions or the timing of the collections of receivables, we may seek to obtain capital to pay distributions by means of secured or unsecured debt financing through one or more third parties, or our advisor or its affiliates. There are currently no limits or restrictions on the use of proceeds from our advisor or its affiliates which would prohibit us from making the proceeds available for distribution. We may also pay distributions from cash from capital transactions, including, without limitation, the sale of one or more of our properties.

As of June 30, 2008, we estimate that our expenditures for capital improvements will require up to \$1,227,000 for the remaining six months of 2008. As of June 30, 2008, we had \$5,043,000 of restricted cash in loan impounds and reserve accounts for such capital expenditures. We cannot provide assurance, however, that we will not exceed these estimated expenditure and distribution levels or be able to obtain additional sources of financing on commercially favorable terms or at all.

If we experience lower occupancy levels, reduced rental rates, reduced revenues as a result of asset sales, or increased capital expenditures and leasing costs compared to historical levels due to competitive market conditions for new and renewal leases, the effect would be a reduction of net cash provided by operating activities. If such a reduction of net cash provided by operating activities is realized, we may have a cash flow deficit in subsequent periods. Our estimate of net cash available is based on various assumptions which are difficult to predict, including the levels of leasing activity at year end and related leasing costs. Any changes in these assumptions could impact our financial results and our ability to fund working capital and unanticipated cash needs.

### ***Cash Flows***

Cash flows provided by operating activities for the six months ended June 30, 2008 and 2007, were \$7,041,000 and \$388,000, respectively. For the six months ended June 30, 2008, cash flows provided by operating activities related primarily to operations from our 36 properties. For the six months ended June 30, 2007, cash flows provided by operating activities related primarily to operations from our eight properties. We anticipate cash flows from operating activities to continue to increase as we purchase more properties.

Cash flows used in investing activities for the six months ended June 30, 2008 and 2007, were \$355,212,000 and \$121,505,000, respectively. For the six months ended June 30, 2008, cash flows used in investing activities related primarily to the acquisition of real estate operating properties in the amount of \$351,027,000. For the six months ended June 30, 2007, cash flows used in investing activities related primarily to the acquisition of real estate operating properties in the amount of \$118,128,000. We anticipate cash flows used in investing activities to continue to increase as we purchase more properties.

Cash flows provided by financing activities for the six months ended June 30, 2008 and 2007, were \$354,463,000 and \$131,669,000, respectively. For the six months ended June 30, 2008, cash flows provided by financing activities related primarily to funds raised from investors in the amount of \$177,525,000, borrowings on mortgage loan payables of \$174,292,000, net borrowings under our secured revolving line of credit with LaSalle and KeyBank of \$22,806,000 and borrowings under our unsecured note payable to affiliate of \$6,000,000, partially offset by principal repayments of \$628,000 on mortgage loan payables, the payment of offering costs of \$17,344,000 and distributions of \$5,130,000. Additional cash outflows related to deferred financing costs of \$2,606,000 in connection with the debt financing for our acquisitions. For the six months ended June 30, 2007, cash flows provided by financing activities related primarily

to funds raised from investors in the amount of \$104,953,000, borrowings under our unsecured note payables to affiliate of \$12,500,000 and borrowings on mortgage loan payables of \$37,530,000, partially offset by principal repayments of \$12,500,000 on our unsecured note payables to affiliate, the payment of offering costs of

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\$9,771,000 and distributions of \$470,000. We anticipate cash flows from financing activities to increase in the future as we raise additional funds from investors and incur additional debt to purchase properties.

### ***Distributions***

The amount of the distributions we pay to our stockholders is determined by our board of directors and is dependent on a number of factors, including funds available for payment of distributions, our financial condition, capital expenditure requirements and annual distribution requirements needed to maintain our status as a REIT under the Internal Revenue Code of 1986, as amended.

Our board of directors approved a 6.50% per annum distribution to be paid to our stockholders beginning on January 8, 2007, the date we reached our minimum offering of \$2,000,000. The first distribution was paid on February 15, 2007 for the period ended January 31, 2007. On February 14, 2007, our board of directors approved a 7.25% per annum distribution to be paid to our stockholders beginning with our February 2007 monthly distribution, which was paid in March 2007. Distributions are paid to our stockholders on a monthly basis.

If distributions are in excess of our taxable income, such distributions will result in a return of capital to our stockholders. Our distribution of amounts in excess of our taxable income have resulted in a return of capital to our stockholders.

For the six months ended June 30, 2008, we paid distributions of \$9,465,000 (\$5,130,000 in cash and \$4,335,000 in shares of our common stock pursuant to the DRIP), as compared to cash flow from operations of \$7,041,000. The distributions paid in excess of our cash flow from operations were paid using proceeds from our offering. As of June 30, 2008, we had an amount payable of \$1,335,000 to our advisor and its affiliates for operating expenses, on-site personnel and engineering payroll, lease commissions, interest expense and asset and property management fees, which will be paid from cash flow from operations in the future as they become due and payable by us in the ordinary course of business consistent with our past practice.

Our advisor or its affiliates have no obligations to defer or forgive amounts due to them. As of June 30, 2008, no amounts due to our advisor or its affiliates have been deferred or forgiven. In the future, if our advisor or its affiliates do not defer or forgive amounts due to them and our cash flow from operations is less than the distributions to be paid, we would be required to pay our distributions, or a portion thereof, with proceeds from our offering or borrowed funds. As a result, the amount of proceeds available for investment and operations would be reduced, or we may incur additional interest expense as a result of borrowed funds.

For the six months ended June 30, 2008, our funds from operations, or FFO, was \$7,305,000. We paid distributions of \$9,465,000, of which \$7,305,000 was paid from FFO and the remainder from proceeds from our offering. See our disclosure regarding FFO below.

## **Capital Resources**

### ***Financing***

We anticipate that our aggregate borrowings, both secured and unsecured, will not exceed 60.0% of all of our properties and real estate related securities combined fair market values, as determined at the end of each calendar year beginning with our first full year of operations. For these purposes, the fair market value of each asset will be equal to the purchase price paid for the asset or, if the asset was appraised subsequent to the date of purchase, then the fair market value will be equal to the value reported in the most recent independent appraisal of the asset. Our policies do not limit the amount we may borrow with respect to any individual investment. As of June 30, 2008, our aggregate

borrowings were 59.4% of all of our properties and real estate related securities combined fair market values.

Our charter precludes us from borrowing in excess of 300.0% of the value of our net assets, unless approved by a majority of our independent directors and the justification for such excess borrowing is disclosed to our stockholders in our next quarterly report. Net assets for purposes of this calculation are defined as our total



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assets (other than intangibles), valued at cost prior to deducting depreciation, reserves for bad debts and other non-cash reserves, less total liabilities. As of June 30, 2008, our leverage did not exceed 300.0% of the value of our net assets.

*Mortgage Loan Payables*

Mortgage loan payables were \$394,554,000 (\$393,694,000, net of discount) and \$185,899,000 (\$185,801,000, net of discount) as of June 30, 2008 and December 31, 2007, respectively. As of June 30, 2008, we had fixed and variable rate mortgage loans with effective interest rates ranging from 3.83% to 12.75% per annum and a weighted average effective interest rate of 4.83% per annum. As of June 30, 2008, we had \$125,752,000 (\$124,892,000, net of discount), or 31.9%, of fixed rate debt at a weighted average interest rate of 5.81% per annum and \$268,802,000, or 68.1%, of variable rate debt at a weighted average interest rate of 4.36% per annum. As of December 31, 2007, we had fixed and variable rate mortgage loans with effective interest rates ranging from 5.52% to 6.78% per annum and a weighted average effective interest rate of 6.07% per annum. As of December 31, 2007, we had \$90,919,000 (\$90,821,000 net of discount), or 48.9%, of fixed rate debt at a weighted average interest rate of 5.79% per annum and \$94,980,000, or 51.1%, of variable rate debt at a weighted average interest rate of 6.35% 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 June 30, 2008 and December 31, 2007, we were in compliance with all such covenants and requirements.

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Mortgage loan payables consisted of the following as of June 30, 2008 and December 31, 2007:

<b>Property</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>June 30, 2008</b>	<b>December 31, 2007</b>
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***Fixed Rate Debt:***

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