HEALTHCARE TRUST OF AMERICA, INC.
Form 10-K
March 16, 2010

Table of Contents

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

**FORM 10-K**

**(Mark One)**

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

For the fiscal year ended **December 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**

**HEALTHCARE TRUST OF AMERICA, INC.**
(Exact name of registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| **None** | **None** |

Securities registered pursuant to Section 12(g) of the Act:

**Common Stock, $0.01 par value per share**
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes **o** No **þ**

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes **o** No **þ**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| 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 Act). Yes o No þ

While there is no established market for the registrant s common stock, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant as of June 30, 2009, the last business day of the registrant s most recently completed second fiscal quarter, was approximately $1,137,042,000, assuming a market value of $10.00 per share which is the price per share in our current offering.

As of March 12, 2010, there were 144,959,351 shares of common stock of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
None

**Healthcare Trust of America, Inc.**
**(A Maryland Corporation)**

**TABLE OF CONTENTS**

Table of Contents

# PART I

## Item 1. Business.

*The use of the words we, us or our refers to Healthcare Trust of America, Inc. and its subsidiaries, including Healthcare Trust of America Holdings, LP, except where the context otherwise requires.*

## OUR COMPANY

Healthcare Trust of America, Inc., formerly known as Grubb & Ellis Healthcare REIT, Inc., a Maryland corporation, was incorporated on April 20, 2006. We were initially capitalized on April 28, 2006 and consider that our date of inception.

### 2009 Highlights

We successfully transitioned from a fee-based sponsored REIT to a self-managed REIT in the third quarter of 2009 and substantially reduced our cost structure.

We completed an extensive transition of moving approximately 33,000 stockholder accounts and investor services, as well as over 4,000 financial advisor accounts, to DST Systems, Inc., our new transfer agent, on August 10, 2009.

We changed our name to Healthcare Trust of America, Inc. on August 24, 2009.

We successfully transitioned the dealer manager for our initial public offering, or our initial offering, to Realty Capital Securities, LLC, or RCS, an unaffiliated third party, on August 29, 2009.

We implemented a customized property management structure aimed at improving property operational performance at the asset and service provider levels, including the elimination of oversight fees, and a company-directed leasing plan to optimize occupancy levels. Accordingly, we transitioned property management services to nationally recognized property management groups each to manage a specific region beginning September 1, 2009 and reduced the fees we pay for property management services by more than 50%.

In order to take the necessary steps to transition to self-management, we amended our advisory agreement with Grubb & Ellis Healthcare REIT Advisor, LLC, or our former advisor, in 2008 to reduce fees paid to our former advisor for acquisition and asset management through the expiration of the advisory agreement, which expired on September 20, 2009. With the reduced fees, in addition to completing the transition to self-management in the third quarter, we realized gross savings of approximately $10,812,000 for 2009.

We completed 14 acquisitions with an aggregate purchase price of approximately $493,895,000, comprised of 54 medical office buildings totaling approximately 2,258,000 square feet and one real estate-related asset.

We maintained a leverage ratio of our debt to total assets of 32% and had cash on hand of $219,001,000 as of December 31, 2009.

Our occupancy held stable at over 90% from 2008 to 2009.

Our modified funds from operations, or MFFO, represented 70% of distributions paid during the 2009 fourth quarter and our MFFO represented 62% of distributions paid during all of 2009, up 100% from 2008.

**Our Business**

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.

Table of Contents

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.

As of December 31, 2009, we had made 53 geographically diverse acquisitions, 41 of which are medical office properties, seven of which are healthcare-related facilities, three of which are quality commercial office properties, and two of which are other real estate-related assets, comprising 179 buildings with 7,407,000 square feet of gross leasable area, or GLA, for an aggregate purchase price of $1,460,311,000, in 21 states.

We are conducting a best efforts initial public 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, for $9.50 per share, aggregating up to $2,200,000,000. The initial offering will expire no later than March 19, 2010. As of December 31, 2009, we had received and accepted subscriptions in our initial offering for 136,958,459 shares of our common stock, or $1,368,087,211, 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 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. We were formerly advised under the terms of an advisory agreement, as amended and restated on November 14, 2008, effective as of October 24, 2008, between us, our former advisor and Grubb & Ellis Realty Investors, LLC, or Grubb & Ellis Realty Investors, the managing member of our former advisor, or Advisory Agreement. The Advisory Agreement expired on September 20, 2009.

Our former advisor engaged 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. On July 28, 2009, we entered into property management and leasing agreements with the following companies, each to manage 5,091,000 square feet of our properties located in a specific geographic region: CB Richard Ellis, PM Realty Group, Hokanson Companies, The Plaza Companies, and Nath Companies. The remaining 2,317,000 square feet of triple net leased properties is managed by our in-house asset management team. On August 31, 2009, each of our subsidiaries terminated its management agreement with Realty.

Upon the effectiveness of our initial offering, we entered into a dealer manager agreement with Grubb & Ellis Securities, Inc., or Grubb & Ellis Securities, or our former dealer manager. On May 21, 2009, we provided notice to Grubb & Ellis Securities pursuant to the dealer manager agreement that we would proceed with a dealer manager transition pursuant to which Grubb & Ellis Securities would cease to serve as our dealer manager for our initial offering at the end of the day on August 28, 2009. Commencing August 29, 2009, RCS assumed the role of dealer manager for the remainder of the offering period pursuant to a new dealer manager agreement.

**Transition to Self-Management**

Our main objectives in amending the Advisory Agreement on November 14, 2008 were to reduce acquisition and asset management fees, eliminate the need to pay disposition or internalization fees, to set the framework for our transition to self-management and to create an enterprise value for our company. We started our transition to self-management in the fourth quarter of 2008. This transition is now complete and we consider ourselves to be self-managed.

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 external advisor. An externally-managed REIT typically pays acquisition fees, disposition fees, asset management fees, property management fees and other fees to its external advisor for services provided. In contrast, under self-management, we are internally managed 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, services such as acquisitions and asset management is performed in-house by the company s employees and fees paid to third parties are expected to be at market rates.

We are conducting an ongoing review of advisory services and dealer manager services previously provided by our former advisor and former dealer manager, to ensure that such services have been performed consistent with applicable agreements and standards. Based on our review to date, as well as ongoing actions by our former advisor and former dealer manager, we believe that our former advisor and our former dealer manager did not comply with all of their obligations under applicable agreements. As a result, we have provided them with notice of our claims under the agreements, as well as notice of other claims. They have disagreed with our positions, and we are engaged in ongoing discussions to resolve these issues. However, we do not anticipate that the disputes will have a material impact on our financial results or operations in the future.

*Management Team.* In July 2008, Mr. Peters assumed the positions of President and Chief Executive officer of our company on a full-time and exclusive basis. This was the first major step toward self-management. We have assembled a highly qualified and experienced management team which is focused on efficiency and performance to increase stockholder value. Our internal management team includes (1) Mr. Peters, our President and Chief Executive Officer, (2) Kellie S. Pruitt, our Chief Accounting Officer, Treasurer and Secretary, (3) Mark Engstrom, our Executive Vice President Acquisitions, (4) Amanda Houghton, Senior Vice President Asset Management and Finance, and (5) Katherine E. Black, Controller. We believe that our management team has the experience and expertise to efficiently and effectively operate our company.

*Governance.* An integral part of self-management is our experienced board of directors. Our board of directors spent a substantial amount of time overseeing our transition to self-management and continues to provide significant assistance to us as a self-managed company. We believe that our board of directors provides effective ongoing governance for our company and that our governance and management framework is one of our key strengths.

*Significantly Reduced Cost.* From inception through December 31, 2009, we incurred to our former advisor and its affiliates approximately $39,217,000 in acquisition fees; approximately $11,550,000 in asset management fees; approximately $5,252,000 in property management fees; and approximately $3,168,000 in leasing fees. We expect third party expenses associated with on-site property management and third party acquisition expenses, including legal fees, due diligence fees and closing costs, to remain approximately the same as under external management, relative to the amount of acquisitions completed. We believe that the total cost of self-management will be substantially less than the cost of external management. While our board of directors, including a majority of our independent directors, previously determined that the fees to our former advisor were competitive and commercially reasonable to us and on terms and conditions not less favorable to us than those available from other sponsors of non-traded REITs based on circumstances at that time, we now believe that by having our own employees manage our operations and retain third party providers, we will significantly reduce our cost structure.

*No Internalization Fees.* Unlike many other non-listed REITs that internalize or pay to acquire various management functions and personnel, such as advisory and asset management services, from their sponsor or advisor prior to listing on a national securities exchange for substantial fees, we will not be required to pay such fees under self-management.

We believe that by not paying such fees, as well as by operating more cost-effectively under self-management, we will save a substantial amount of money for the benefit of our stockholders. To the extent that our management and board of directors determine that utilizing third party service providers for certain services is more cost-effective than performing such services internally, we will pay for these services based on negotiated terms and conditions consistent with the current marketplace for such services on an as-needed basis.

*Funding of Self-Management.* We believe that the cost of self-management will be substantially less than the cost of external management. The initial step in becoming self-managed was amending the Advisory Agreement, on November 14, 2008, whereby we reduced acquisition fees from 3% to 2.5% of the purchase price (with further tiered adjustments based on gross acquisition value to accomplish an average acquisition fee of 2.25%) and reduced asset management fees from 1% to 0.5% of average invested assets. Upon expiration of the Advisory Agreement, we no longer pay asset management fees and we did not have to pay an internalization fee. Acquisition fees will not be recurring, except for any remaining acquisition fees to our former advisor for assets acquired with those remaining funds raised in our initial offering by our former dealer manager. In the third quarter of 2009, we became fully self-managed and also transitioned our property management services to nationally recognized property management groups for market-based fees. The reduced acquisition and asset management fees along with the savings from market-based property management fees in the third and fourth quarter resulted in a total gross savings of approximately $10,812,000 in 2009. The costs of self-management during 2009 was approximately $5,000,000, excluding one-time, non-recurring transition costs of $1,973,000, resulting in net savings of approximately $3,839,000. Therefore, the additional costs related to the transition to self-management was effectively funded by the cost savings in 2009. We anticipate that we will achieve substantial cost savings in the future as a result of reduced and/or eliminated acquisition fees, disposition fees, asset management fees, internalization fees and other outside fees.

*Dedicated Management and Increased Accountability.* Under self-management, our officers and employees work directly for our company and are not associated with any outside advisor or other third party service providers. Our management team has direct oversight of our employees, independent consultants and third party service providers. We believe that these direct reporting relationships along with our performance-based compensation programs and ongoing oversight by our management team create an environment for and will achieve increased accountability and efficiency.

*Conflicts of Interest.* We believe that self-management works to remove inherent conflicts of interest that exist between an externally advised REIT and its advisor. The elimination or reduction of these inherent conflicts of interest is one of the major reasons that we elected to proceed with self-management.

## Developments During 2010

### *Pending Acquisitions*

On February 10, 2010, we entered into a purchase and sale agreement for approximately $29,250,000 to acquire the Triad Technology Center in Baltimore, Maryland. The building is approximately 101,400 square feet and is 100% leased to the U.S. government and is occupied primarily by the National Institutes of Health.

On February 19, 2010, we entered into a purchase and sale agreement for approximately $45,700,000 to acquire a five building medical office portfolio located in Evansville, Indiana. The approximately 260,500 square foot portfolio is 100% master-leased to the Deaconess Clinic which is part of the Deaconess Health System. Deaconess Health System carries an A+ rating from both Standard & Poor s and Fitch and is the largest health system in Southern Indiana.

On February 22, 2010, we entered into a purchase and sale agreement for approximately $15,300,000 to acquire a three building, approximately 53,700 square feet medical office portfolio located in Hilton Head, South Carolina. The portfolio is located less than two miles from the Hilton Head Hospital, a wholly-owned hospital of Tenet Healthcare Corporation. Two of the three buildings in the portfolio are currently 100% occupied, and 35% of the portfolio is occupied by Hilton Head Hospital.

On February 24, 2010, we entered into a purchase and sale agreement for approximately $12,400,000 to acquire a three story, approximately 60,300 square foot medical office building in Sugar Land, Texas. The building is 100% leased with 83% of the space occupied by Texas Children s Health Centers through 2019.

On February 25, 2010, we entered into a purchase and sale agreement for approximately $10,500,000 to acquire an approximately 54,800 square foot medical office portfolio in Pearland, Texas. The portfolio consists of two buildings which are approximately ten miles south of the world-renowned Houston Medical Center and 15 miles south of Houston s central business district. The buildings are 100% and 98% occupied.

On March 2, 2010, we entered into a purchase and sale agreement for approximately $10,000,000 to acquire a 60,800 square foot medical office building located in located in Mount Pleasant, South Carolina, a suburb of Charleston. The Medical Center at East Cooper is 90% leased and is on the campus of East Cooper Regional Medical Center.

On March 3, 2010, we opened escrow with First American Title Company, and on or before March 26, 2010, our subsidiary plans to exercise its call option to buy for $3,900,000 100% of the interest owned by its joint venture partner in HTA Duke Chesterfield Rehab, LLC ( Duke ), which owns the Chesterfield Rehabilitation Center.

The completion of each of the pending acquisitions described above is subject to the satisfaction of a number of conditions, and we cannot guarantee that these acquisitions will be completed.

***Completed Acquisitions***

On March 4, 2010, we acquired an 80,652 square foot medical office portfolio for approximately $19,550,000 located in Atlanta, Georgia. The portfolio is 94% leased and is located approximately six miles west of South Fulton Medical Center, a 338-bed facility, rated Best Critical Care in Region by Healthgrades, a leading healthcare ratings organization.

On March 10, 2009, we acquired the King Street Medical Office Building for approximately $10,775,000. The 53,169 square foot building is located in Jacksonville, Florida. The King Street Medical Office Building is 100% occupied and is home to the Gary and Nancy Chartrand Heart & Vascular Center.

***Offering Proceeds***

As of March 12, 2010, we had received and accepted subscriptions in our initial offering for 144,959,351 shares of our common stock, or $1,448,044,000, excluding shares of our common stock issued under the DRIP.

***Financing***

In spite of the economic conditions impacting the debt market, we were able to secure long-term financing with certain life insurance companies for approximately $71,875,000 with an average loan term of 7.4 years and an average interest rate of 6.17%.

We received a commitment letter from one of our lenders to provide a senior secured loan facility in the amount of $35,000,000 with the ability to syndicate the facility with one or more financial institutions for up to $65,000,000. We are currently in discussions with various other lenders who have expressed an interest in participating in such a facility.

## Our Structure

The following chart indicates our organizational structure.

(1) Our former advisor owns less than a 0.01% interest in our company and in our operating partnership.

Our principal executive offices are located at The Promenade, 16427 North Scottsdale Road, Suite 440, Scottsdale, AZ 85254 and our telephone number is (480) 998-3478. We maintain a web site at *www.htareit.com* at which there is additional information about us. The contents of that site are not incorporated by reference in, or otherwise a part of, this filing. We make our periodic and current reports available at *www.htareit.com* as soon as reasonably practicable after such materials are electronically filed with the SEC. They are also available for printing by any stockholder upon request.

# INVESTMENT OBJECTIVES AND POLICIES

## Investment Objectives

Our investment objectives are:

- to acquire quality properties that generate sustainable growth in cash flows from operations to pay regular cash distributions;
- to preserve, protect and return our stockholders capital contributions;
- to realize growth in the value of our investments upon our ultimate sale of such investments; and
- to be prudent, patient and deliberate, taking into account current real estate markets.

Each property we acquire is carefully and diligently reviewed and analyzed to make sure it is consistent with our investment objectives. Our goal is to at all times maintain a strong balance sheet and always have sufficient funds to deal with short- and long-term operating needs. Macro-economic disruptions have broadly impacted the economy and have caused an imbalance between buyers and sellers of real estate assets, including medical office buildings and other healthcare-related real estate assets. We anticipated that these tough economic conditions would create opportunities for our company to acquire such assets at higher capitalization rates, as the real estate market adjusted downward. In the fourth quarter of 2008 and first half of 2009, we opted not to proceed with certain deals which we determined merited re-pricing. As we entered the second half of 2009, we started to see attractive assets available for prices at higher capitalization rates. As a result, we were very active buying real estate in the third and fourth quarters of 2009. We had cash on hand of over $219,001,000 as of December 31, 2009, which we intend to use to continue to acquire assets that are priced at levels consistent with today s economy. We believe that during this turbulent economic cycle, our cash on hand will provide our company with opportunities to acquire medical office buildings and other healthcare-related real estate assets at favorable pricing.

We cannot assure our stockholders that we will attain these objectives or that our capital will not decrease. Our board of directors may change our investment objectives if it determines it is advisable and in the best interests of our stockholders.

Decisions relating to the purchase or sale of investments will be made by our management, subject to the oversight by our board of directors. See Item 10. Directors, Executive Officers and Corporate Governance for a description of the background and experience of our directors and officers.

**Business Strategies**

We seek to invest in a diversified portfolio of real estate and other real estate related assets, focusing primarily on investments that produce recurring income. Our real estate investments focus on medical office buildings and healthcare-related facilities. We have also invested to a limited extent in quality commercial office buildings 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. Our investments in other real estate related assets will generally focus on forms of mortgage debt, common and preferred stock of public or private real estate companies and certain other securities. We seek to maximize long-term stockholder value by generating sustainable growth in cash flow and portfolio value. In order to achieve these objectives, we may invest using a number of investment structures which may include direct acquisitions, joint ventures, leveraged investments, issuing securities for property and direct and indirect investments in real estate. In order to maintain our exemption from regulation as an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act, we may be required to limit our investments in other real estate related assets.

In addition, when and as determined appropriate by our Chief Executive Officer, our board of directors and management, the portfolio may also include properties in various stages of development other than those producing current income. These stages would include, without limitation, unimproved land, both with and without entitlements and permits, property to be redeveloped and repositioned, newly constructed properties and properties in lease-up or other stabilization, all of which will have limited or no relevant operating histories and no current income. Our management makes this determination based upon a variety of factors, including the available risk adjusted returns for such properties when compared with other available properties, the appropriate diversification of the portfolio, and our objectives of realizing both recurring income and capital appreciation upon the ultimate sale of properties.

For each of our investments, regardless of property type, we seek to invest in properties with the following attributes:

*Quality.* We seek to acquire properties that are suitable for their intended use with a quality of construction that is capable of sustaining the property s investment potential for the long-term, assuming funding of budgeted maintenance, repairs and capital improvements.

*Location.* We seek to acquire properties that are located in established or otherwise appropriate markets for comparable properties, with access and visibility suitable to meet the needs of its occupants.

*Market; Supply and Demand.* We focus on local or regional markets that have potential for stable and growing property level cash flow over the long-term. These determinations are based in part on an evaluation of local economic, demographic and regulatory factors affecting the property. For instance, we favor markets that indicate a growing population and employment base or markets that exhibit potential limitations on additions to supply, such as barriers to new construction. Barriers to new construction include lack of available land, stringent zoning restrictions and regulatory restrictions. In addition, we generally seek to limit our investments in areas that have limited potential for growth.

*Predictable Capital Needs.* We seek to acquire properties where the future expected capital needs can be reasonably projected in a manner that would allow us to meet our objectives of growth in cash flow and preservation of capital and stability.

*Cash Flow.* We seek to acquire properties where the current and projected cash flow, including the potential for appreciation in value, would allow us to meet our overall investment objectives. We evaluate cash flow as well as expected growth and the potential for appreciation.

We will not invest more than 10.0% of the offering proceeds available for investment in unimproved or non-income producing properties or in other investments relating to unimproved or non-income producing property. A property: (1) not acquired for the purpose of producing rental or other operating income, or (2) with no development or construction in process or planned in good faith to commence within one year, will be considered unimproved or non-income producing property for purposes of this limitation. To date, we have not invested in unimproved or non-income producing properties or related investments.

We are not limited as to the geographic area where we may acquire properties. We are not specifically limited in the number or size of properties we may acquire or on the percentage of our assets that we may invest in a single property or investment. The number and mix of properties we acquire depends upon real estate and market conditions and other circumstances existing at the time we are acquiring our properties and making our investments and the amount of proceeds we raise in our offering and potential future offerings.

## FINANCING POLICIES

We use and intend to continue to use secured and unsecured debt as a means of providing additional funds for the acquisition of properties and other real estate related assets. Our ability to enhance our investment returns and to increase our diversification by acquiring assets using additional funds provided through borrowing could be adversely impacted if banks and other lending institutions reduce the amount of funds available for the types of loans we seek. When interest rates are high or financing is otherwise unavailable on a timely basis, we may purchase certain assets for cash with the intention of obtaining debt financing at a later time.

We anticipate that aggregate borrowings, both secured and unsecured, will not exceed 60.0% of all of our properties combined fair market values, as determined at the end of each calendar year. 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 December 31, 2009, our aggregate borrowings were 38.5% of all of our properties and other real estate related assets combined fair market values and 32% of our total assets.

Our aggregate secured and unsecured borrowings will be reviewed by our board of directors at least quarterly. Our charter precludes us from borrowing in excess of 300.0% of the value of our net assets. Net assets for purposes of this calculation are defined as our total assets (other than intangibles) valued at cost prior to deducting depreciation, reserves for bad debts and other non-cash reserves, less total liabilities. The preceding calculation is generally expected to approximate 75.0% of the sum of (1) the aggregate cost of our properties before non-cash reserves and depreciation and (2) the aggregate cost of our securities assets. However, we may temporarily borrow in excess of these amounts if such excess is approved by a majority of our independent directors and disclosed to stockholders in our next quarterly report, along with justification for such excess. In such event, we will review our debt levels at that time and take action to reduce any such excess as soon as practicable. As of March 15, 2010 and December 31, 2009, our leverage did not exceed 300.0% of the value of our net assets.

Our use of leverage increases the risk of default on loan payments and the resulting foreclosure of a particular asset. In addition, lenders may have recourse to assets other than those specifically securing the repayment of the indebtedness.

Our management will use its best efforts to obtain financing on the most favorable terms available to us and we will refinance assets during the term of a loan only in limited circumstances, such as when a decline in interest rates makes it beneficial to prepay an existing loan, when an existing loan matures or if an attractive investment becomes available and the proceeds from the refinancing can be used to purchase such investment. The benefits of the refinancing may include an increased cash flow resulting from reduced debt service requirements, an increase in distributions from proceeds of the refinancing, and an increase in diversification and assets owned if all or a portion of the refinancing proceeds are reinvested. We currently anticipate seeking fixed rate debt with longer-term maturities.

Our charter restricts us from borrowing money from any of our directors unless such loan is approved by a majority of our directors (including a majority of the independent directors) not otherwise interested in the transaction, as fair, competitive and commercially reasonable and no less favorable to us than comparable loans between unaffiliated parties.

## BOARD REVIEW OF OUR INVESTMENT POLICIES

Our board of directors has established written policies on investments and borrowing. Our board is responsible for monitoring the administrative procedures, investment operations and performance of our company and our management to ensure such policies are carried out. Our charter requires that our independent directors review our investment policies at least annually to determine that our policies are in the best interest of our stockholders. Each determination and the basis thereof is required to be set forth in the minutes of our applicable meetings of our directors. Implementation of our investment policies also may vary as new investment techniques are developed.

As required by our charter, our independent directors have reviewed our policies outlined above and determined that they are in the best interest of our stockholders because: (1) they increase the likelihood that we will be able to acquire a diversified portfolio of income producing properties, thereby reducing risk in our portfolio; (2) there are sufficient property acquisition opportunities with the attributes that we seek; (3) our executive officers, directors and management have expertise with the type of real estate investments we seek; and (4) our borrowings have enabled us to purchase assets and earn rental income more quickly, thereby increasing our likelihood of generating income for our stockholders and preserving stockholder capital.

## TAX STATUS

We have qualified and elected to be taxed as a REIT beginning with our taxable year ended December 31, 2007 under Sections 856 through 860 of the Code for federal income tax purposes and we intend to continue to be taxed as a REIT. To continue to qualify as a REIT for federal income tax purposes, we must meet certain organizational and operational requirements, including a requirement to pay distributions to our stockholders of at least 90.0% of our annual taxable income (computed without regard to the dividends paid deduction and excluding net capital gains). As a REIT, we generally are not subject to federal income tax on net income that we distribute to our stockholders.

If we fail to qualify as a REIT in any taxable year, we will then be subject to federal income taxes on our taxable income and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year during which qualification is lost unless the IRS grants us relief under certain statutory provisions. Such an event could have a material adverse effect on our results of operations and net cash available for distribution to stockholders.

## DISTRIBUTION POLICY

In order to continue to qualify as a REIT for federal income tax purposes, among other things, we must distribute at least 90.0% of our annual taxable income to our stockholders. The amount of 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 the payment of distributions, our financial condition, capital expenditure requirements and annual distribution requirements needed to maintain our status as a REIT under the Code. We have paid distributions monthly since February 2007 and if our investments produce sufficient cash flow, we expect to continue to pay distributions to our stockholders on a monthly basis. However, our board of directors could, at any time, elect to pay distributions quarterly to reduce administrative costs. Because our cash available for distribution in any year may be less than 90.0% of our taxable income for the year, we may obtain the necessary funds by borrowing, issuing new securities or selling assets to pay out enough of our taxable income to satisfy the distribution requirement.

See Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Distributions, for a further discussion on distribution rates approved by our board of directors.

## COMPETITION

We compete with many other real estate investment entities, including financial institutions, institutional pension funds, real estate developers, other REITs, other public and private real estate companies and private real estate investors for the acquisition of medical office buildings and healthcare-related facilities. During the acquisitions process, we compete with others who have a comparative advantage in terms of size, capitalization, depth of experience, local knowledge of the marketplace, and extended contacts throughout the region. Any combination of these factors may result in an increased purchase price for real properties or other real estate related assets which may reduce the number of opportunities available that meet our investment criteria. If the number of opportunities that meet our investment criteria are limited, our ability to increase stockholder value may be adversely impacted.

We face competition in leasing available medical office buildings and healthcare-related facilities to prospective tenants. As a result, we may have to provide rent concessions, incur charges for tenant improvements, offer other inducements, or we may be unable to timely lease vacant space, all of which may have an adverse impact on our results of operations. At the time we elect to dispose of our properties, we will also be in competition with sellers of similar properties to locate suitable purchasers.

We believe our focus on medical office buildings and healthcare-related facilities and our relationships with healthcare providers allow us to effectively identify acquisition opportunities.

## GOVERNMENT REGULATIONS

Many laws and governmental regulations are applicable to our properties and changes in these laws and regulations, or their interpretation by agencies and the courts, occur frequently.

*Costs of Compliance with the Americans with Disabilities Act.* Under the Americans with Disabilities Act of 1990, as amended, or the ADA, all places of public accommodation are required to comply with federal requirements related to access and use by disabled persons. Although we believe that we are in substantial compliance with present requirements of the ADA, none of our properties have been audited and we have only conducted investigations of a few of our properties to determine compliance. We may incur additional costs in connection with compliance with the ADA. Additional federal, state and local laws also may require modifications to our properties or restrict our ability to renovate our properties. We cannot predict the cost of compliance with the ADA or other legislation. We may incur substantial costs to comply with the ADA or any other legislation.

*Costs of Government Environmental Regulation and Private Litigation.* Environmental laws and regulations hold us liable for the costs of removal or remediation of certain hazardous or toxic substances which may be on our properties. These laws could impose liability without regard to whether we are responsible for the presence or release of the hazardous materials. Government investigations and remediation actions may have substantial costs and the presence of hazardous substances on a property could result in personal injury or similar claims by private plaintiffs. Various laws also impose liability on persons who arrange for the disposal or treatment of hazardous or toxic substances and such person often must incur the cost of removal or remediation of hazardous substances at the disposal or treatment facility. These laws often impose liability whether or not the person arranging for the disposal ever owned or operated the disposal facility. As the owner and operator of our properties, we may be deemed to have arranged for the disposal or treatment of hazardous or toxic substances.

*Use of Hazardous Substances by Some of Our Tenants.* Some of our tenants routinely handle hazardous substances and wastes on our properties as part of their routine operations. Environmental laws and regulations subject these tenants, and potentially us, to liability resulting from such activities. We require our tenants, in their leases, to comply with these environmental laws and regulations and to indemnify us for any related liabilities. We are unaware of any material noncompliance, liability or claim relating to hazardous or toxic substances or petroleum products in connection with any of our properties.

*Other Federal, State and Local Regulations.* Our properties are subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these various requirements, we may incur governmental fines or private damage awards. While we believe that our properties are currently in material compliance with all of these regulatory requirements, we do not know whether existing requirements will change or whether future requirements will require us to make significant unanticipated expenditures that will adversely affect our ability to make distributions to our stockholders. We believe, based in part on engineering reports which are generally obtained at the time we acquire the properties, that all of our properties comply in all material respects with current regulations. However, if we were required to make significant expenditures under applicable regulations, our financial condition, results of operations, cash flow and ability to satisfy our debt service obligations and to pay distributions could be adversely affected.

## SIGNIFICANT TENANTS

As of December 31, 2009, none of our tenants at our consolidated properties accounted for 10.0% or more of our aggregate annual rental revenue.

## GEOGRAPHIC CONCENTRATION

As of December 31, 2009, we had interests in ten consolidated properties located in Texas, which accounted for 16.9% of our total rental income, interests in two consolidated properties located in South Carolina, which accounted for 13.0% of our total rental income, and interests in five consolidated properties located in Arizona, which accounted for 12.2% of our total rental income. This rental income is based on contractual base rent from leases in effect as of December 31, 2009. Accordingly, there is a geographic concentration of risk subject to fluctuations in each of these states economies

## EMPLOYEES

As of December 31, 2009, we have 29 employees and all of our employees are 100% dedicated to our company on a full-time basis. Our current organizational structure is designed to support an asset base of $2.0 to $3.0 billion depending on the composition of the assets acquired, and we believe we have hired sufficient personnel to support this asset base. As we grow, we will add the appropriate staff to accommodate the increased size of our company.

## FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

ASC 280, *Segment Reporting* ( ASC 280 ) establishes standards for reporting financial and descriptive information about an enterprise s reportable segment. We have determined that we have one reportable segment, with activities related to investing in medical office buildings, healthcare-related facilities, commercial office properties and other real estate related assets. Our investments in real estate and other real estate related assets are geographically diversified and our chief operating decision maker evaluates operating performance on an individual asset level. As each of our assets has similar economic characteristics, tenants, and products and services, our assets have been aggregated into one reportable segment.

## Item 1A. Risk Factors.

### Investment Risks

***There is currently no public market for shares of our common stock. Therefore, it will be difficult for stockholders to sell their shares and, if they are able to sell their shares, they will likely sell them at a discount.***

There currently is no public market for shares of our common stock. We do not expect a public market for our stock to develop prior to the listing of our shares on a national securities exchange, which we do not expect to occur in the near future and which may not occur at all. Additionally, our charter contains restrictions on the ownership and transfer of our shares, and these restrictions may inhibit our stockholders ability to sell their shares. We have adopted a share repurchase plan but it is limited in terms of the amount of shares which may be repurchased annually. Our board of directors may also limit, suspend, terminate or amend our share repurchase plan upon 30 days notice. Therefore, it will be difficult for our stockholders to sell their shares promptly or at all. If our stockholders are able to sell their shares, they may only be able to sell them at a substantial discount from the price paid. This may be the result, in part, of the fact that, at the time we make our investments, the amount of funds available for investment will be reduced by up to 11.5% of the gross offering proceeds which will be used to pay selling commissions and the dealer manager fee and organizational and offering expenses. We will also be required to use gross offering proceeds to pay acquisition expenses. Unless our aggregate investments increase in value to compensate for these fees and expenses, which may not occur, it is unlikely that our stockholders will be able to sell their shares, whether pursuant to our share repurchase plan or otherwise, without incurring a substantial loss. We cannot assure our stockholders that their shares will ever appreciate in value to equal the price paid for the shares. Thus, prospective stockholders should consider the purchase of shares of our common stock as illiquid and a long-term investment, and our stockholders must be prepared to hold their shares for an indefinite length of time.

***We may not have sufficient cash available from operations to pay distributions, and, therefore, distributions may include a return of capital.***

Distributions payable to stockholders may include a return of capital, rather than a return on capital. We expect to continue to make monthly distributions to our stockholders. The actual amount and timing of distributions will be determined by our board of directors in its discretion and typically will depend on the amount of funds available for distribution, which will depend on items such as current and projected cash requirements and tax considerations. As a result, our distribution rate and payment frequency may vary from time to time. We may not have sufficient cash available from operations to pay distributions required to maintain our status as a REIT and may need to use proceeds from our offerings or borrowed funds to make such cash distributions. Additionally, if the aggregate amount of cash distributed in any given year exceeds the amount of our REIT taxable income generated during the year, the excess amount will be deemed a return of capital, which will decrease our stockholders tax basis in their investment in shares of our common stock. Our organizational documents do not establish a limit on the amount of net proceeds we may use to fund distributions.

***We may not have sufficient cash available from operations to pay distributions, and, therefore, distributions may be paid, without limitation, with offering proceeds or borrowed funds.***

The amount of the distributions we make to our stockholders will be 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. If our cash flow from operations is less than the distributions our board of directors determines to pay, we would be required to pay our distributions, or a portion thereof, with proceeds from our offerings 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.

***As of December 31, 2009, we had made 53 geographically diverse acquisitions and have identified a limited number of additional properties to acquire with the net proceeds we will receive from the future equity raise, and stockholders are therefore unable to evaluate the economic merits of most of our future investments prior to purchasing shares of our common stock.***

As of December 31, 2009, we have made 53 geographically diverse acquisitions with the net proceeds from our initial offering. As of December 31, 2009, we have identified a limited number of additional potential properties to acquire with the net proceeds we will receive from our offerings. Other than these 53 geographically diverse acquisitions, our stockholders are unable to evaluate the manner in which the net proceeds are invested and the economic merits of our future investments prior to purchasing shares of our common stock. Additionally, our stockholders do not have the opportunity to evaluate the transaction terms or other financial or operational data concerning other investment properties or other real estate related assets.

***If we are unable to find suitable investments, we may not be able to achieve our investment objectives.***

Our stockholders must rely on us to evaluate our investment opportunities, and we may not be able to achieve our investment objectives or may make unwise decisions. We cannot assure our stockholders that acquisitions of real estate or other real estate related assets made using the proceeds of our offerings will produce a return on our investment or will generate cash flow to enable us to make distributions to our stockholders

***We face competition for the acquisition of medical office buildings and other healthcare-related facilities, which may impede our ability to make future acquisitions or may increase the cost of these acquisitions.***

We compete with many other entities engaged in real estate investment activities for acquisitions of medical office buildings and healthcare-related facilities, including national, regional and local operators, acquirers and developers of healthcare real estate properties. The competition for healthcare real estate properties may significantly increase the price we must pay for medical office buildings and healthcare-related facilities or other real estate related assets we seek to acquire and our competitors may succeed in acquiring those properties or assets themselves. In addition, our potential acquisition targets may find our competitors to be more attractive because they may have greater resources, may be willing to pay more for the properties or may have a more compatible operating philosophy. In particular, larger healthcare REITs may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. In addition, the number of entities and the amount of funds competing for suitable investment properties may increase. This competition will result in increased demand for these assets and therefore increased prices paid for them. Because of an increased interest in single-property acquisitions among tax-motivated individual purchasers, we may pay higher prices if we purchase single properties in comparison with portfolio acquisitions. If we pay higher prices for medical office buildings and healthcare-related facilities, our business, financial condition and results of operations and our ability to make distributions to our stockholders may be materially and adversely affected.

***Our stockholders may be unable to sell their shares because their ability to have their shares repurchased pursuant to our share repurchase plan is subject to significant restrictions and limitations.***

Even though our share repurchase plan may provide our stockholders with a limited opportunity to sell shares to us after they have held them for a period of one year or in the event of death or qualifying disability, our stockholders should be fully aware that our share repurchase plan contains significant restrictions and limitations. Further, our board may limit, suspend, terminate or amend any provision of the share repurchase plan upon 30 days notice. Repurchases of shares, when requested, will generally be made quarterly. Repurchases will be limited to: (1) those that could be funded from the net proceeds from the sale of shares under the DRIP in the prior 12 months plus any additional amounts set aside by our board of directors for such purpose, and (2) 5.0% of the weighted average number of shares outstanding during the prior calendar year. In addition, a stockholder must present at least 25.0% of her shares for repurchase and until a stockholder held shares for at least four years, repurchases will be made for less than she paid for her shares. Therefore, in making a decision to purchase shares of our common stock, investors should not assume that they will be able to sell any of their shares back to us pursuant to our share repurchase plan at any particular time or at all.

***Our initial and follow-on offerings are best efforts offerings and if we are unable to raise substantial proceeds in these offerings, we will be limited in the number and type of investments we may make, which will result in a less diversified portfolio.***

Our initial and follow-on offering are being made on a best efforts basis, whereby our dealer manager and the broker-dealers participating in the offerings are only required to use their best efforts to sell our shares and have no firm commitment or obligation to purchase any of the shares. As a result, if we are unable to raise substantial proceeds in these offerings, we will have limited diversification in terms of the number of investments owned, the geographic regions in which our investments are located and the types of investments that we make. Our stockholders investment in our shares will be subject to greater risk to the extent that we lack a diversified portfolio of investments. In such event, the likelihood of our profitability being affected by the poor performance of any single investment will increase.

***Our initial and follow-on offerings are fixed price offerings and the fixed offering price may not accurately represent the current value of our assets at any particular time. Therefore the purchase price our stockholders paid for shares of our common stock may be higher than the value of our assets per share of our common stock at the time of purchase.***

Our initial and follow-on offerings are fixed price offerings, which means that the offering price for shares of our common stock is fixed and will not vary based on the underlying value of our assets at any time during our follow-on offering The offering price for shares of our common stock during this offering is the same price as shares of our common stock during our initial offering. Our board of directors arbitrarily determined the offering price in its sole discretion. The fixed offering price for shares of our common stock has not been based on appraisals for any assets we may own nor do we intend to obtain such appraisals. Therefore, the fixed offering price established for shares of our common stock may not accurately represent the current value of our assets per share of our common stock at any particular time and may be higher or lower than the actual value of our assets per share at such time.

***Payments to our former advisor related to its potential right to a subordinated participation interest in our operating partnership will reduce cash available for distribution to our stockholders.***

Our former advisor may have certain rights, subject to a number of conditions, to a subordinated participation interest in our operating partnership, pursuant to which it may be entitled to receive distributions upon the occurrence of certain events, including in connection with dispositions of our assets, certain mergers of our company with another company or the listing of our common stock on a national securities exchange. The distribution, if payable to our former advisor, may be up to 15.0% of the net proceeds from the sale of our properties only after we have made distributions to our stockholders of the total amount raised from stockholders in the initial offering (less amounts paid to repurchase shares through our share repurchase plan) plus an annual 8.0% cumulative, non-compounded return on average invested capital raised in the initial offering. Any distributions to our former advisor by our operating partnership upon dispositions of our assets and such other events will reduce cash available for distribution to our stockholders.

***We presently intend to effect a liquidity event by September 20, 2013; however, we cannot assure our stockholders that we will effect a liquidity event by such time or at all. If we do not effect a liquidity event, it will be very difficult for our stockholders to have liquidity for their investment in shares of our common stock.***

On a limited basis, our stockholders may be able to sell shares through our share repurchase plan. However, in the future we may also consider various forms of liquidity events, including but not limited to (1) the listing of shares of our common stock on a national securities exchange, (2) our sale or merger in a transaction that provides our stockholders with a combination of cash and/or securities of a publicly traded company, and(3) the sale of all or substantially all of our real property for cash or other consideration. We presently intend to effect a liquidity event by September 20, 2013. However, we cannot assure our stockholders that we will effect a liquidity event within such time or at all. If we do not effect a liquidity event, it will be very difficult for our stockholders to have liquidity for their investment in shares of our common stock other than limited liquidity through our share repurchase plan.

Because a portion of the offering price from the sale of shares is used to pay expenses and fees, the full offering price paid by stockholders is not invested in real estate investments. As a result, stockholders will only receive a full return of their invested capital if we either (1) sell our assets or our company for a sufficient amount in excess of the original purchase price of our assets, or (2) the market value of our company after we list our shares of common stock on a national securities exchange is substantially in excess of the original purchase price of our assets.

### Risks Related to Our Business

***Our operations have resulted in net losses to date, which makes our future performance and the performance of an investment in our shares difficult to predict.***

For the years ended December 31, 2007, 2008 and 2009, our operations resulted in a net loss of approximately $7.67 million, $28.45 million and $25.08 million, respectively. The decrease in net loss for the year ended December 31, 2009 as compared to December 31, 2008 is primarily due to an increase in total depreciation and amortization, acquisition expenses and an increase in net expenses on our indebtedness offset by a gain on derivatives. The increase in net loss for the year ended December 31, 2008 as compared to December 31, 2007 is primarily due to an increase in total depreciation and amortization, and an increase in net expenses on our indebtedness. Our net losses have increased substantially from December 31, 2007 to December 31, 2008, and have slightly decreased for the year ended December 31, 2009. Our net losses may increase in the future. Our net losses increase the risk and uncertainty investors face in making an investment in our shares, including risks related to our ability to pay future distributions.

***Continued volatility in the credit markets and real estate markets could have a material adverse effect on our results of operations, financial condition and ability to pay distributions to our stockholders.***

Domestic and international financial markets currently are experiencing continued volatility which has been brought about in large part by failures in the U.S. banking system. This volatility has severely impacted the availability of credit and have contributed to rising costs associated with obtaining credit. If debt financing is not available on terms and conditions we find acceptable, we may not be able to obtain financing for investments. If this volatility in the credit markets persists, our ability to borrow monies to finance the purchase of, or other activities related to, properties and other real estate related assets will be negatively impacted. If we are unable to borrow monies on terms and conditions that we find acceptable, we likely will have to reduce the number of properties we can purchase, and the return on the properties we do purchase may be lower. In addition, we may find it difficult, costly or impossible to refinance indebtedness which is maturing. If interest rates are higher when the properties are refinanced, we may not be able to finance the properties and our income could be reduced. In addition, if we pay fees to lock-in a favorable interest rate, falling interest rates or other factors could require us to forfeit these fees. All of these events would have a material adverse effect on our results of operations, financial condition and ability to pay distributions.

In addition to volatility in the credit markets, the real estate market is subject to fluctuation and can be impacted by factors such as general economic conditions, supply and demand, availability of financing and interest rates. To the extent we purchase real estate in an unstable market, we are subject to the risk that if the real estate market ceases to attract the same level of capital investment in the future that it attracts at the time of our purchases, or the number of companies seeking to acquire properties decreases, the value of our investments may not appreciate or may decrease significantly below the amount we pay for these investments.

Finally, the pervasive and fundamental disruptions that the global financial markets are currently undergoing have led to extensive and unprecedented governmental intervention. Although the government intervention is intended to stimulate the flow of capital and to undergird the U.S. economy in the short term, it is impossible to predict the actual effect of the government intervention and what effect, if any, additional interim or permanent governmental intervention may have on the financial markets and/or the effect of such intervention on us and our results of operations. In addition, there is a high likelihood that regulation of the financial markets will be significantly increased in the future, which could have a material impact on our operating results and financial condition.

***We may suffer from delays in locating suitable investments, which could reduce our ability to make distributions to our stockholders.***

There may be a substantial period of time before the proceeds of our offerings are invested in additional suitable investments. Because we are conducting our offerings on a best efforts basis over time, our ability to commit to purchase specific assets will also depend, in part, on the amount of proceeds we have received at a given time. If we are delayed or unable to find additional suitable investments, we may not be able to achieve our investment objectives or make distributions to our stockholders.

***The availability and timing of cash distributions to our stockholders is uncertain.***

We expect to make monthly distributions to our stockholders. However, we bear all expenses incurred in our operations, which are deducted from cash funds generated by operations prior to computing the amount of cash distributions to our stockholders. In addition, our board of directors, in its discretion, may retain any portion of such funds for working capital. We cannot assure our stockholders that sufficient cash will be available to make distributions or that the amount of distributions will increase over time. Should we fail for any reason to distribute at least 90.0% of our ordinary taxable income, we would not qualify for the favorable tax treatment accorded to REITs.

***We may structure acquisitions of property in exchange for limited partnership units in our operating partnership on terms that could limit our liquidity or our flexibility.***

We may acquire properties by issuing limited partnership units in our operating partnership in exchange for a property owner contributing property to the partnership. If we enter into such transactions, in order to induce the contributors of such properties to accept units in our operating partnership, rather than cash, in exchange for their properties, it may be necessary for us to provide them additional incentives. For instance, our operating partnership s limited partnership agreement provides that any holder of units may exchange limited partnership units on a one-for-one basis for shares of our common stock, or, at our option, cash equal to the value of an equivalent number of our shares. We may, however, enter into additional contractual arrangements with contributors of property under which we would agree to repurchase a contributor s units for shares of our common stock or cash, at the option of the contributor, at set times. If the contributor required us to repurchase units for cash pursuant to such a provision, it would limit our liquidity and thus our ability to use cash to make other investments, satisfy other obligations or make distributions to stockholders. Moreover, if we were required to repurchase units for cash at a time when we did not have sufficient cash to fund the repurchase, we might be required to sell one or more properties to raise funds to satisfy this obligation. Furthermore, we might agree that if distributions the contributor received as a limited partner in our operating partnership did not provide the contributor with a defined return, then upon redemption of the contributor s units we would pay the contributor an additional amount necessary to achieve that return. Such a provision could further negatively impact our liquidity and flexibility. Finally, in order to allow a contributor of a property to defer taxable gain on the contribution of property to our operating partnership, we might agree not to sell a contributed property for a defined period of time or until the contributor exchanged the contributor s units for cash or shares. Such an agreement would prevent us from selling those properties, even if market conditions made such a sale favorable to us.

***Our success may be hampered by the current slow down in the real estate industry.***

Our business is sensitive to trends in the general economy, as well as the commercial real estate and credit markets. The current macroeconomic environment and accompanying credit crisis has negatively impacted the value of commercial real estate assets, contributing to a general slow down in our industry, which may continue through 2010 and beyond. A prolonged and pronounced recession could continue or accelerate the reduction in overall transaction volume and size of sales and leasing activities that we have already experienced, and would continue to put downward pressure on our revenues and operating results. To the extent that any decline in our revenues and operating results impacts our performance, our results of operations, financial condition and ability to pay distributions to our stockholders could also suffer.

***Our results of operations, our ability to pay distributions to our stockholders and our ability to dispose of our investments are subject to international, national and local economic factors we cannot control or predict.***

Our results of operations are subject to the risks of an international or national economic slow down or downturn and other changes in international, national and local economic conditions. The following factors may affect income from our properties, our ability to acquire and dispose of properties, and yields from our properties:

- poor economic times may result in defaults by tenants of our properties due to bankruptcy, lack of liquidity, or operational failures. We may also be required to provide rent concessions or reduced rental rates to maintain or increase occupancy levels;

- reduced values of our properties may limit our ability to dispose of assets at attractive prices or to obtain debt financing secured by our properties and may reduce the availability of unsecured loans;

- the value and liquidity of our short-term investments and cash deposits could be reduced as a result of a deterioration of the financial condition of the institutions that hold our cash deposits or the institutions or assets in which we have made short-term investments, the dislocation of the markets for our short-term investments, increased volatility in market rates for such investment or other factors;

- one or more lenders under our lines of credit could refuse to fund their financing commitment to us or could fail and we may not be able to replace the financing commitment of any such lenders on favorable terms, or at all;

- one or more counterparties to our interest rate swaps could default on their obligations to us or could fail, increasing the risk that we may not realize the benefits of these instruments;

- increases in supply of competing properties or decreases in demand for our properties may impact our ability to maintain or increase occupancy levels and rents;

- constricted access to credit may result in tenant defaults or non-renewals under leases;

- job transfers and layoffs may cause vacancies to increase and a lack of future population and job growth may make it difficult to maintain or increase occupancy levels; and

- increased insurance premiums, real estate taxes or energy or other expenses may reduce funds available for distribution or, to the extent such increases are passed through to tenants, may lead to tenant defaults. Also, any such increased expenses may make it difficult to increase rents to tenants on turnover, which may limit our ability to increase our returns.

The length and severity of any economic slow down or downturn cannot be predicted. Our results of operations, our ability to pay distributions to our stockholders and our ability to dispose of our investments may be negatively impacted to the extent an economic slowdown or downturn is prolonged or becomes more severe.

***The failure of any bank in which we deposit our funds could reduce the amount of cash we have available to pay distributions and make additional investments.***

The Federal Deposit Insurance Corporation, or FDIC, will only insure amounts up to $250,000 per depositor per insured bank through December 31, 2013. Beginning January 14, 2014, the FDIC will only insure up to $100,000 per depositor per bank. We currently have cash and cash equivalents and restricted cash deposited in certain financial institutions in excess of federally insured levels. If any of the banking institutions in which we have deposited funds ultimately fail, we may lose any amount of our deposits over any federally-insured amounts. The loss of our deposits could reduce the amount of cash we have available to distribute or invest and could result in a decline in the value of our stockholders investment.

***Our success depends to a significant degree upon the continued contributions of certain key personnel, each of whom would be difficult to replace. If we were to lose the benefit of the experience, efforts and abilities of one or more of these individuals, our operating results could suffer.***

As a self-managed company, our ability to achieve our investment objectives and to pay distributions is increasingly dependent upon the performance of our board of directors, Scott D. Peters as our Chief Executive Officer, President and Chairman of the Board, Kellie S. Pruitt as our Chief Accounting Officer, Treasurer and Secretary, Mark Engstrom as our Executive Vice President Acquisitions, and our other employees, in the identification and acquisition of investments, the determination of any financing arrangements, the asset management of our investments and operation of our day-to-day activities. Our stockholders will have no opportunity to evaluate the terms of transactions or other economic or financial data concerning our investments that are not described in this Annual Report on Form 10-K or other periodic filings with the SEC. We rely primarily on the management ability of our Chief Executive Officer and other executive officers and the governance of our board of directors, each of whom would be difficult to replace. We do not have any key man life insurance on Messrs. Peters, Engstrom or Ms. Pruitt. We have entered into employment agreements with each of Messrs. Peters, Engstrom and Ms. Pruitt; however, the employment agreements contain various termination rights. If we were to lose the benefit of their experience, efforts and abilities, our operating results could suffer. In addition, if any member of our board of directors were to resign, we would lose the benefit of such director s governance and experience. As a result of the foregoing, we may be unable to achieve our investment objectives or to pay distributions to our stockholders.

## Risks Related to Our Organizational Structure

***We may issue preferred stock or other classes of common stock, which issuance could adversely affect the holders of our common stock.***

Our stockholders do not have preemptive rights to any shares issued by us in the future. We may issue, without stockholder approval, preferred stock or other classes of common stock with rights that could dilute the value of our stockholders shares of our common stock. Our charter authorizes us to issue 1,200,000,000 shares of capital stock, of which 1,000,000,000 shares of capital stock are designated as common stock and 200,000,000 shares of capital stock are designated as preferred stock. Our board of directors may amend our charter to increase the aggregate number of authorized shares of capital stock or the number of authorized shares of capital stock of any class or series without stockholder approval. If we ever created and issued preferred stock with a distribution preference over our common stock, payment of any distribution preferences of outstanding preferred stock would reduce the amount of funds available for the payment of distributions on our common stock. Further, holders of preferred stock are normally entitled to receive a preference payment in the event we liquidate, dissolve or wind up before any payment is made to our common stockholders, likely reducing the amount our common stockholders would otherwise receive upon such an occurrence. In addition, under certain circumstances, the issuance of preferred stock or a separate class or series of common stock may render more difficult or tend to discourage:

- a merger, tender offer or proxy contest;
- assumption of control by a holder of large block of our securities; or
- removal of the incumbent board of directors and management.

***Our stockholders ability to control our operations is severely limited.***

Our board of directors determines our major strategies, including our strategies regarding investments, financing, growth, debt capitalization, REIT qualification and distributions. Our board of directors may amend or revise these and other strategies without a vote of the stockholders. Our charter sets forth the stockholder voting rights required to be set forth therein under the Statement of Policy Regarding Real Estate Investment

Trusts adopted by the North American Securities Administrators Association, or the NASAA Guidelines. Under our charter and Maryland law, our stockholders will have a right to vote only on the following matters:

- the election or removal of directors;
- any amendment of our charter, except that our board of directors may amend our charter without stockholder approval to change our name or the name or other designation or the par value of any class or series of our stock and the aggregate par value of our stock, increase or decrease the aggregate number of our shares of stock or the number of our shares of any class or series that we have the authority to issue, or effect certain reverse stock splits;
- our dissolution; and
- certain mergers, consolidations and sales or other dispositions of all or substantially all of our assets.

All other matters are subject to the discretion of our board of directors.

***The limit on the percentage of shares of our common stock that any person may own may discourage a takeover or business combination that may have benefited our stockholders.***

Our charter restricts the direct or indirect ownership by one person or entity to no more than 9.8% of the value of our then outstanding capital stock (which includes common stock and any preferred stock we may issue) and no more than 9.8% of the value or number of shares, whichever is more restrictive, of our then outstanding common stock. This restriction may discourage a change of control of us and may deter individuals or entities from making tender offers for shares of our common stock on terms that might be financially attractive to stockholders or which may cause a change in our management. This ownership restriction may also prohibit business combinations that would have otherwise been approved by our board of directors and our stockholders. In addition to deterring potential transactions that may be favorable to our stockholders, these provisions may also decrease our stockholders ability to sell their shares of our common stock.

***Our board of directors may change our investment objectives without seeking stockholder approval.***

Our board of directors may change our investment objectives without seeking stockholder approval. Although our board of directors has fiduciary duties to our stockholders and intends only to change our investment objectives when our board of directors determines that a change is in the best interests of our stockholders, a change in our investment objectives could reduce our payment of cash distributions to our stockholders or cause a decline in the value of our investments.

***Maryland law and our organizational documents limit our stockholders right to bring claims against our officers and directors.***

Maryland law provides that a director will not have any liability as a director so long as he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests, and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter provides that, subject to the applicable limitations set forth therein or under Maryland law, no director or officer will be liable to us or our stockholders for monetary damages. Our charter also provides that we will generally indemnify our directors, and our officers for losses they may incur by reason of their service in those capacities unless: (1) their act or omission was material to the matter giving rise to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty, (2) they actually received an improper personal benefit in money, property or services or (3) in the case of any criminal proceeding, they had reasonable cause to believe the act or omission was unlawful. Moreover, we have entered into separate indemnification agreements with each of our directors and some of our executive officers. As a result, we and our stockholders may have more limited rights against these persons than might otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by these persons in some cases. However, our charter does provide that we may not indemnify our directors for any liability suffered by them or hold our directors harmless for any liability suffered by us unless (1) they have determined that the course of conduct that caused the loss or liability was in our best interests, (2) they were acting on our behalf or performing services for us, (3) the liability was not the result of negligence or misconduct by our non-independent directors, or gross negligence or willful misconduct by our independent directors and (4) the indemnification or agreement to hold harmless is recoverable only out of our net assets or the proceeds of insurance and not from our stockholders.

***Certain provisions of Maryland law could restrict a change in control even if a change in control was in our stockholders interests.***

Certain provisions of the Maryland General Corporation Law applicable to us prohibit business combinations with:

- any person who beneficially owns 10.0% or more of the voting power of our outstanding voting stock or any affiliate or associate of ours who, at any time within the two-year period prior to the date in question beneficially owns 10.0% or more of the voting power of our then outstanding stock, each of, which we refer to as an interested stockholder; or

- an affiliate of an interested stockholder.

These prohibitions last for five years after the most recent date on which the interested stockholder became an interested stockholder. Thereafter, any business combination with the interested stockholder must be recommended by our board of directors and approved by the affirmative vote of at least 80.0% of the votes entitled to be cast by holders of our outstanding shares of our voting stock and two-thirds of the votes entitled to be cast by holders of shares of our voting stock other than shares held by the interested stockholder or by an affiliate or associate of the interested stockholder. These requirements could have the effect of inhibiting a change in control even if a change in control were in our stockholders interest. These provisions of Maryland law do not apply, however, to business combinations that are approved or exempted by our board of directors prior to the time that someone becomes an interested stockholder. Our board of directors has adopted a resolution providing that any business combination between us and any other person is exempted from this statute, provided that such business combination is first approved by our board. This resolution, however, may be altered or repealed in whole or in part at any time.

***Our stockholders investment return may be reduced if we are required to register as an investment company under the Investment Company Act.***

We are not registered as an investment company under the Investment Company Act. If for any reason, we were required to register as an investment company, we would have to comply with a variety of substantive requirements under the Investment Company Act imposing, among other things:

- limitations on capital structure;

- restrictions on specified investments;

- prohibitions on transactions with affiliates; and

- compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly change our operations.

We intend to continue to operate in such a manner that we will not be subject to regulation under the Investment Company Act. In order to maintain our exemption from regulation under the Investment Company Act, we must comply with technical and complex rules and regulations.

Specifically, so that we will not be subject to regulation as an investment company under the Investment Company Act, we intend to engage primarily in the business of investing in interests in real estate and to make these investments within one year after the offering ends. If we are unable to invest a significant portion of the proceeds of our offerings in properties within one year of the termination of the offering, we may avoid being required to register as an investment company under the Investment Company Act by temporarily investing any unused proceeds in government securities with low returns. Investments in government securities likely would reduce the cash available for distribution to stockholders and possibly lower investor returns.

In order to avoid coming within the application of the Investment Company Act, either as a company engaged primarily in investing in interests in real estate or under another exemption from the Investment Company Act, we may be required to impose limitations on our investment activities. In particular, we may limit the percentage of our assets that fall into certain categories specified in the Investment Company Act, which could result in us holding assets we otherwise might desire to sell and selling assets we otherwise might wish to retain. In addition, we may have to acquire additional assets that we might not otherwise have acquired or be forced to forgo investment opportunities that we would otherwise want to acquire and that could be important to our investment strategy. In particular, we will monitor our investments in other real estate related assets to ensure continued compliance with one or more exemptions from investment company status under the Investment Company Act and, depending on the particular characteristics of those investments and our overall portfolio, we may be required to limit the percentage of our assets represented by real estate related assets.

If we were required to register as an investment company, our ability to enter into certain transactions would be restricted by the Investment Company Act. Furthermore, the costs associated with registration as an investment company and compliance with such restrictions could be substantial. In addition, registration under and compliance with the Investment Company Act would require a substantial amount of time on the part of our management, thereby decreasing the time they spend actively managing our investments. If we were required to register as an investment company but failed to do so, we would be prohibited from engaging in our business, and criminal and civil actions could be brought against us. In addition, our contracts would be unenforceable unless a court were to require enforcement, and a court could appoint a receiver to take control of us and liquidate our business.

***Several potential events could cause our stockholders investment in us to be diluted, which may reduce the overall value of their investment.***

Our stockholders investment in us could be diluted by a number of factors, including:

- future offerings of our securities, including issuances under our distribution reinvestment plan and up to 200,000,000 shares of any preferred stock that our board of directors may authorize;

- private issuances of our securities to other investors, including institutional investors;

- issuances of our securities under our 2006 Incentive Plan; or

- redemptions of units of limited partnership interest in our operating partnership in exchange for shares of our common stock.

To the extent we issue additional equity interests after our stockholders purchase shares of our common stock in our two contemplated offerings, our stockholders percentage ownership interest in us will be diluted. In addition, depending upon the terms and pricing of any additional offerings and the value of our real properties and other real estate related assets, our stockholders may also experience dilution in the book value and fair market value of their shares.

***Our stockholders interests may be diluted in various ways, which may reduce their returns.***

Our board of directors is authorized, without stockholder approval, to cause us to issue additional shares of our common stock or to raise capital through the issuance of preferred stock, options, warrants and other rights, on terms and for consideration as our board of directors in its sole discretion may determine, subject to certain restrictions in our charter in the instance of options and warrants. Any such issuance could result in dilution of the equity of our stockholders. Our board of directors may, in its sole discretion, authorize us to issue common stock or other equity or debt securities to: (1) persons from whom we purchase properties, as part or all of the purchase price of the property, or (2) our former advisor in lieu of cash payments required under the advisory agreement or other contract or obligation. Our board of directors, in its sole discretion, may determine the value of any common stock or other equity securities issued in consideration of properties or services provided, or to be provided, to us, except that while shares of our common stock are offered by us to the public, the public offering price of the shares of our common stock will be deemed their value.

***Our stockholders may not receive any profits resulting from the sale of one of our properties, or receive such profits in a timely manner, because we may provide financing to the purchaser of such property.***

If we sell one of our properties during liquidation, our stockholders may experience a delay before receiving their share of the proceeds of such liquidation. In a forced or voluntary liquidation, we may sell our properties either subject to or upon the assumption of any then outstanding mortgage debt or, alternatively, may provide financing to purchasers. We may take a purchase money obligation secured by a mortgage as partial payment. We do not have any limitations or restrictions on our taking such purchase money obligations. To the extent we receive promissory notes or other property instead of cash from sales, such proceeds, other than any interest payable on those proceeds, will not be included in net sale proceeds until and to the extent the promissory notes or other property are actually paid, sold, refinanced or otherwise disposed of. In many cases, we will receive initial down payments in the year of sale in an amount less than the selling price and subsequent payments will be spread over a number of years. Therefore, stockholders may experience a delay in the distribution of the proceeds of a sale until such time.

## Risks Related to Investments in Real Estate

***Changes in national, regional or local economic, demographic or real estate market conditions may adversely affect our results of operations and our ability to pay distributions to our stockholders or reduce the value of their investment.***

We are subject to risks generally incident to the ownership of real property, including changes in national, regional or local economic, demographic or real estate market conditions. We are unable to predict future changes in national, regional or local economic, demographic or real estate market conditions. For example, a recession or rise in interest rates could make it more difficult for us to lease real properties or dispose of them. In addition, rising interest rates could also make alternative interest-bearing and other investments more attractive and therefore potentially lower the relative value of our existing real estate investments. These conditions, or others we cannot predict, may adversely affect our results of operations and our ability to pay distributions to our stockholders or reduce the value of their investment.

***Some or all of our properties may incur vacancies, which may result in reduced revenue and resale value, a reduction in cash available for distribution and a diminished return on their investment.***

Some or all of our properties may incur vacancies either by a default of tenants under their leases or the expiration or termination of tenant leases. If vacancies continue for a long period of time, we may suffer reduced revenues resulting in less cash distributions to our stockholders. In addition, the resale value of the property could be diminished because the market value of a particular property will depend principally upon the value of the leases of such property.

***We are dependent on tenants for our revenue, and lease terminations could reduce our distributions to our stockholders.***

The successful performance of our real estate investments is materially dependent on the financial stability of our tenants. Lease payment defaults by tenants would cause us to lose the revenue associated with such leases and could cause us to reduce the amount of distributions to our stockholders. If the property is subject to a mortgage, a default by a significant tenant on its lease payments to us may result in a foreclosure on the property if we are unable to find an alternative source of revenue to meet mortgage payments. In the event of a tenant default, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-leasing our property. Further, we cannot assure our stockholders that we will be able to re-lease the property for the rent previously received, if at all, or that lease terminations will not cause us to sell the property at a loss.

Table of Contents

***We may incur additional costs in acquiring or re-leasing properties which could adversely affect the cash available for distribution to our stockholders.***

We may invest in properties designed or built primarily for a particular tenant of a specific type of use known as a single-user facility. If the tenant fails to renew its lease or defaults on its lease obligations, we may not be able to readily market a single-user facility to a new tenant without making substantial capital improvements or incurring other significant re-leasing costs. We also may incur significant litigation costs in enforcing our rights as a landlord against the defaulting tenant. These consequences could adversely affect our revenues and reduce the cash available for distribution to our stockholders.

***Uninsured losses relating to real estate and lender requirements to obtain insurance may reduce stockholder returns.***

There are types of losses relating to real estate, generally catastrophic in nature, such as losses due to wars, acts of terrorism, earthquakes, floods, hurricanes, pollution or environmental matters, for which we do not intend to obtain insurance unless we are required to do so by mortgage lenders. If any of our properties incurs a casualty loss that is not fully covered by insurance, the value of our assets will be reduced by any such uninsured loss. In addition, other than any reserves we may establish, we have no source of funding to repair or reconstruct any uninsured damaged property, and we cannot assure our stockholders that any such sources of funding will be available to us for such purposes in the future. Also, to the extent we must pay unexpectedly large amounts for uninsured losses, we could suffer reduced earnings that would result in less cash to be distributed to stockholders. In cases where we are required by mortgage lenders to obtain casualty loss insurance for catastrophic events or terrorism, such insurance may not be available, or may not be available at a reasonable cost, which could inhibit our ability to finance or refinance our properties. Additionally, if we obtain such insurance, the costs associated with owning a property would increase and could have a material adverse effect on the net income from the property, and, thus, the cash available for distribution to our stockholders.

***We may obtain only limited warranties when we purchase a property and would have only limited recourse in the event our due diligence did not identify any issues that lower the value of our property.***

The seller of a property often sells such property in its as is condition on a where is basis and with all faults, without any warranties of merchantability or fitness for a particular use or purpose. In addition, purchase and sale agreements may contain only limited warranties, representations and indemnifications that will only survive for a limited period after the closing. The purchase of properties with limited warranties increases the risk that we may lose some or all of our invested capital in the property, as well as the loss of rental income from that property.

***Terrorist attacks and other acts of violence or war may affect the markets in which we operate and have a material adverse effect on our financial condition, results of operations and ability to pay distributions to our stockholders.***

Terrorist attacks may negatively affect our operations and our stockholders investment. We may acquire real estate assets located in areas that are susceptible to attack. These attacks may directly impact the value of our assets through damage, destruction, loss or increased security costs. Although we may obtain terrorism insurance, we may not be able to obtain sufficient coverage to fund any losses we may incur. Risks associated with potential acts of terrorism could sharply increase the premiums we pay for coverage against property and casualty claims. Further, certain losses resulting from these types of events are uninsurable or not insurable at reasonable costs.

More generally, any terrorist attack, other act of violence or war, including armed conflicts, could result in increased volatility in, or damage to, the United States and worldwide financial markets and economy, all of which could adversely affect our tenants ability to pay rent on their leases or our ability to borrow money or issue capital stock at acceptable prices and have a material adverse effect on our financial condition, results of operations and ability to pay distributions our stockholders.

***Delays in the acquisition, development and construction of real properties may have adverse effects on our results of operations and returns to our stockholders.***

Delays we encounter in the selection, acquisition and development of real properties could adversely affect stockholder returns. Where properties are acquired prior to the start of constructions or during the early stages of construction, it will typically take several months to complete construction and rent available space. Therefore, stockholders could suffer delays in the receipt of cash distributions attributable to those particular real properties. Delays in completion of construction could give tenants the right to terminate preconstruction leases for space at a newly developed project. We may incur additional risks when we make periodic progress payments or other advances to builders prior to completion of construction. Each of those factors could result in increased costs of a project or loss of our investment. In addition, we are subject to normal lease-up risks relating to newly constructed projects. Furthermore, the price we agree to for a real property will be based on our projections of rental income and expenses and estimates of the fair market value of real property upon completion of construction. If our projections are inaccurate, we may pay too much for a property.

***Uncertain market conditions relating to the future disposition of properties could cause us to sell our properties at a loss in the future.***

We intend to hold our various real estate investments until such time as we determine that a sale or other disposition appears to be advantageous to achieve our investment objectives. Our Chief Executive Officer and our board of directors may exercise their discretion as to whether and when to sell a property, and we will have no obligation to sell properties at any particular time. We generally intend to hold properties for an extended period of time, and we cannot predict with any certainty the various market conditions affecting real estate investments that will exist at any particular time in the future. Because of the uncertainty of market conditions that may affect the future disposition of our properties, we cannot assure our stockholders that we will be able to sell our properties at a profit in the future or at all. Additionally, we may incur prepayment penalties in the event we sell a property subject to a mortgage earlier than we otherwise had planned. Accordingly, the extent to which our stockholders will receive cash distributions and realize potential appreciation on our real estate investments will, among other things, be dependent upon fluctuating market conditions. Any inability to sell a property could adversely impact our ability to pay distributions to our stockholders.

***We face possible liability for environmental cleanup costs and damages for contamination related to properties we acquire, which could substantially increase our costs and reduce our liquidity and cash distributions to stockholders.***

Because we own and operate real estate, we are subject to various federal, state and local environmental laws, ordinances and regulations. Under these laws, ordinances and regulations, a current or previous owner or operator of real estate may be liable for the cost of removal or remediation of hazardous or toxic substances on, under or in such property. The costs of removal or remediation could be substantial. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures. Environmental laws provide for sanctions in the event of noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Certain environmental laws and common law principles could be used to impose liability for release of and exposure to hazardous substances, including the release of asbestos-containing materials into the air, and third parties may seek recovery from owners or operators of real estate for personal injury or property damage associated with exposure to released hazardous substances. In addition, new or more stringent laws or stricter interpretations of existing laws could change the cost of compliance or liabilities and restrictions arising out of such laws. The cost of defending against these claims, complying with environmental regulatory requirements, conducting remediation of any contaminated property, or of paying personal injury claims could be substantial, which would reduce our liquidity and cash available for distribution to our stockholders. In addition, the presence of hazardous substances on a property or the failure to meet environmental regulatory requirements may materially impair our ability to use, lease or sell a property, or to use the property as collateral for borrowing.

***Our property investments are geographically concentrated in certain states and subject to economic fluctuations in those states.***

As of December 31, 2009, we had interests in ten consolidated properties located in Texas, which accounted for 16.7% of our total rental income, interests in two consolidated properties located in South Carolina, which accounted for 12.7% of our total rental income, and interests in five consolidated properties located in Arizona, which accounted for 12.6% of our total rental income. This rental income is based on contractual base rent from leases in effect as of December 31, 2009. Accordingly, there is a geographic concentration of risk subject to fluctuations in each state s economy.

***Certain of our properties may not have efficient alternative uses, so the loss of a tenant may cause us not to be able to find a replacement or cause us to spend considerable capital to adapt the property to an alternative use.***

Some of the properties we seek to acquire are specialized medical facilities. If we or our tenants terminate the leases for these properties or our tenants lose their regulatory authority to operate such properties, we may not be able to locate suitable replacement tenants to lease the properties for their specialized uses. Alternatively, we may be required to spend substantial amounts to adapt the properties to other uses. Any loss of revenues or additional capital expenditures required as a result may have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our stockholders.

***Our medical office buildings, healthcare-related facilities and tenants may be unable to compete successfully.***

Our medical office buildings and healthcare-related facilities often face competition from nearby hospitals and other medical office buildings that provide comparable services. Some of those competing facilities are owned by governmental agencies and supported by tax revenues, and others are owned by nonprofit corporations and may be supported to a large extent by endowments and charitable contributions. These types of support are not available to our buildings.

Similarly, our tenants face competition from other medical practices in nearby hospitals and other medical facilities. Our tenants failure to compete successfully with these other practices could adversely affect their ability to make rental payments, which could adversely affect our rental revenues. Further, from time to time and for reasons beyond our control, referral sources, including physicians and managed care organizations, may change their lists of hospitals or physicians to which they refer patients. This could adversely affect our tenants ability to make rental payments, which could adversely affect our rental revenues.

Any reduction in rental revenues resulting from the inability of our medical office buildings and healthcare-related facilities and our tenants to compete successfully may have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our stockholders.

***Our costs associated with complying with the Americans with Disabilities Act may reduce our cash available for distributions.***

Our properties may be subject to the Americans with Disabilities Act of 1990, as amended, or the ADA. Under the ADA, all places of public accommodation are required to comply with federal requirements related to access and use by disabled persons. The ADA has separate compliance requirements for public accommodations and commercial facilities that generally require that buildings and services be made accessible and available to people with disabilities.

The ADA s requirements could require removal of access barriers and could result in the imposition of injunctive relief, monetary penalties or, in some cases, an award of damages. We attempt to acquire properties that comply with the ADA or place the burden on the seller or other third party, such as a tenant, to ensure compliance with the ADA. However, we cannot assure our stockholders that we will be able to acquire properties or allocate responsibilities in this manner. If we cannot, our funds used for ADA compliance may reduce cash available for distributions and the amount of distributions to our stockholders.

***Our real properties are subject to property taxes that may increase in the future, which could adversely affect our cash flow.***

Our real properties are subject to real and personal property taxes that may increase as tax rates change and as the real properties are assessed or reassessed by taxing authorities. Some of our leases generally provide that the property taxes or increases therein are charged to the tenants as an expense related to the real properties that they occupy while other leases will generally provide that we are responsible for such taxes. In any case, as the owner of the properties, we are ultimately responsible for payment of the taxes to the applicable government authorities. If real property taxes increase, our tenants may be unable to make the required tax payments, ultimately requiring us to pay the taxes even if otherwise stated under the terms of the lease. If we fail to pay any such taxes, the applicable taxing authority may place a lien on the real property and the real property may be subject to a tax sale. In addition, we are generally responsible for real property taxes related to any vacant space.

***Costs of complying with governmental laws and regulations related to environmental protection and human health and safety may be high.***

All real property investments and the operations conducted in connection with such investments are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. Some of these laws and regulations may impose joint and several liability on customers, owners or operators for the costs to investigate or remediate contaminated properties, regardless of fault or whether the acts causing the contamination were legal.

Under various federal, state and local environmental laws, a current or previous owner or operator of real property may be liable for the cost of removing or remediating hazardous or toxic substances on such real property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. In addition, the presence of hazardous substances, or the failure to properly remediate those substances, may adversely affect our ability to sell, rent or pledge such real property as collateral for future borrowings. Environmental laws also may impose restrictions on the manner in which real property may be used or businesses may be operated. Some of these laws and regulations have been amended so as to require compliance with new or more stringent standards as of future dates. Compliance with new or more stringent laws or regulations or stricter interpretation of existing laws may require us to incur material expenditures. Future laws, ordinances or regulations may impose material environmental liability. Additionally, our tenants operations, the existing condition of land when we buy it, operations in the vicinity of our real properties, such as the presence of underground storage tanks, or activities of unrelated third parties may affect our real properties. In addition, there are various local, state and federal fire, health, life-safety and similar regulations with which we may be required to comply, and which may subject us to liability in the form of fines or damages for noncompliance. In connection with the acquisition and ownership of our real properties, we may be exposed to such costs in connection with such regulations. The cost of defending against environmental claims, of any damages or fines we must pay, of compliance with environmental regulatory requirements or of remediating any contaminated real property could materially and adversely affect our business, lower the value of our assets or results of operations and, consequently, lower the amounts available for distribution to our stockholders.

**Risks Related to the Healthcare Industry**

***Reductions in reimbursement from third party payors, including Medicare and Medicaid, could adversely affect the profitability of our tenants and hinder their ability to make rent payments to us.***

Sources of revenue for our tenants may include the federal Medicare program, state Medicaid programs, private insurance carriers and health maintenance organizations, among others. Efforts by such payors to reduce healthcare costs will likely continue, which may result in reductions or slower growth in reimbursement for certain services provided by some of our tenants. In addition, the failure of any of our tenants to comply with various laws and regulations could jeopardize their ability to continue participating in Medicare, Medicaid and other government sponsored payment programs.

The healthcare industry continues to face various challenges, including increased government and private payor pressure on healthcare providers to control or reduce costs. It is possible that our tenants will continue to experience a shift in payor mix away from fee-for-service payors, resulting in an increase in the percentage of revenues attributable to managed care payors, and general industry trends that include pressures to control healthcare costs. Pressures to control healthcare costs and a shift away from traditional health insurance reimbursement to managed care plans have resulted in an increase in the number of patients whose healthcare coverage is provided under managed care plans, such as health maintenance organizations and preferred provider organizations. These changes could have a material adverse effect on the financial condition of some or all of our tenants. The financial impact on our tenants could restrict their ability to make rent payments to us, which would have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our stockholders.

***The healthcare industry is heavily regulated and currently there is pending legislation on healthcare reform. New laws or regulations, the current pending legislation, changes to existing laws or regulations, loss of licensure or failure to obtain licensure could result in the inability of our tenants to make rent payments to us.***

The healthcare industry is heavily regulated by federal, state and local governmental bodies. Our tenants generally are subject to laws and regulations covering, among other things, licensure, certification for participation in government programs, and relationships with physicians and other referral sources. Changes in these laws and regulations could negatively affect the ability of our tenants to make lease payments to us and our ability to make distributions to our stockholders.

Many of our medical properties and their tenants may require a license or certificate of need, or CON, to operate. Failure to obtain a license or CON, or loss of a required license or CON would prevent a facility from operating in the manner intended by the tenant. These events could materially adversely affect our tenants ability to make rent payments to us. State and local laws also may regulate expansion, including the addition of new beds or services or acquisition of medical equipment, and the construction of healthcare-related facilities, by requiring a CON or other similar approval. State CON laws are not uniform throughout the United States and are subject to change. We cannot predict the impact of state CON laws on our development of facilities or the operations of our tenants.

In addition, state CON laws often materially impact the ability of competitors to enter into the marketplace of our facilities. The repeal of CON laws could allow competitors to freely operate in previously closed markets. This could negatively affect our tenants abilities to make rent payments to us.

In limited circumstances, loss of state licensure or certification or closure of a facility could ultimately result in loss of authority to operate the facility and require new CON authorization to re-institute operations. As a result, a portion of the value of the facility may be reduced, which would adversely impact our business, financial condition and results of operations and our ability to make distributions to our stockholders.

***Some tenants of our medical office buildings and healthcare-related facilities are subject to fraud and abuse laws, the violation of which by a tenant may jeopardize the tenant s ability to make rent payments to us.***

There are various federal and state laws prohibiting fraudulent and abusive business practices by healthcare providers who participate in, receive payments from or are in a position to make referrals in connection with government-sponsored healthcare programs, including the Medicare and Medicaid programs.

Our lease arrangements with certain tenants may also be subject to these fraud and abuse laws. These laws include:

- the Federal Anti-Kickback Statute, which prohibits, among other things, the offer, payment, solicitation or receipt of any form of remuneration in return for, or to induce, the referral of any item or service reimbursed by Medicare or Medicaid;
- the Federal Physician Self-Referral Prohibition, which, subject to specific exceptions, restricts physicians from making referrals for specifically designated health services for which payment may be made under Medicare or Medicaid programs to an entity with which the physician, or an immediate family member, has a financial relationship;
- the False Claims Act, which prohibits any person from knowingly presenting false or fraudulent claims for payment to the federal government, including claims paid by the Medicare and Medicaid programs; and
- the Civil Monetary Penalties Law, which authorizes the U.S. Department of Health and Human Services to impose monetary penalties for certain fraudulent acts.

Each of these laws includes criminal and/or civil penalties for violations that range from punitive sanctions, damage assessments, penalties, imprisonment, denial of Medicare and Medicaid payments and/or exclusion from the Medicare and Medicaid programs. Certain laws, such as the False Claims Act, allow for individuals to bring whistleblower actions on behalf of the government for violations thereof. Additionally, states in which the facilities are located may have similar fraud and abuse laws. Investigation by a federal or state governmental body for violation of fraud and abuse laws or imposition of any of these penalties upon one of our tenants could jeopardize that tenant s ability to operate or to make rent payments, which may have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our stockholders.

***Adverse trends in healthcare provider operations may negatively affect our lease revenues and our ability to make distributions to our stockholders.***

The healthcare industry is currently experiencing:

- changes in the demand for and methods of delivering healthcare services;
- changes in third party reimbursement policies;
- significant unused capacity in certain areas, which has created substantial competition for patients among healthcare providers in those areas;
- continued pressure by private and governmental payors to reduce payments to providers of services; and
- increased scrutiny of billing, referral and other practices by federal and state authorities.

These factors may adversely affect the economic performance of some or all of our healthcare-related tenants and, in turn, our lease revenues and our ability to make distributions to our stockholders.

***Our healthcare-related tenants may be subject to significant legal actions that could subject them to increased operating costs and substantial uninsured liabilities, which may affect their ability to pay their rent payments to us.***

As is typical in the healthcare industry, our healthcare-related tenants may often become subject to claims that their services have resulted in patient injury or other adverse effects. Many of these tenants may have experienced an increasing trend in the frequency and severity of professional liability and general liability insurance claims and litigation asserted against them. The insurance coverage maintained by these tenants may not cover all claims made against them nor continue to be available at a reasonable cost, if at all. In some states, insurance coverage for the risk of punitive damages arising from professional liability and general liability claims and/or litigation may not, in certain cases, be available to these tenants due to state law prohibitions or limitations of availability. As a result, these types of tenants of our medical office buildings and healthcare-related facilities operating in these states may be liable for punitive damage awards that are either not covered or are in excess of their insurance policy limits. We also believe that there has been, and will continue to be, an increase in governmental investigations of certain healthcare providers, particularly in the area of Medicare/Medicaid false claims, as well as an increase in enforcement actions resulting from these investigations. Insurance is not available to cover such losses. Any adverse determination in a legal proceeding or governmental investigation, whether currently asserted or arising in the future, could have a material adverse effect on a tenant s financial condition. If a tenant is unable to obtain or maintain insurance coverage, if judgments are obtained in excess of the insurance coverage, if a tenant is required to pay uninsured punitive damages, or if a tenant is subject to an uninsurable government enforcement action, the tenant could be exposed to substantial additional liabilities, which may affect the tenant s ability to pay rent, which in turn could have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our stockholders.

***We may experience adverse effects as a result of potential financial and operational challenges faced by the operators of our senior healthcare facilities.***

Operators of our senior healthcare facilities may face operational challenges from potentially reduced revenue streams and increased demands on their existing financial resources. Our skilled nursing operators revenues are primarily derived from governmentally-funded reimbursement programs, such as Medicare and Medicaid. Accordingly, our facility operators are subject to the potential negative effects of decreased reimbursement rates offered through such programs. Our operators revenue may also be adversely affected as a result of falling occupancy rates or slow lease-ups for assisted and independent living facilities due to the recent turmoil in the capital debt and real estate markets. In addition, our facility operators may incur additional demands on their existing financial resources as a result of increases in senior healthcare operator liability, insurance premiums and other operational expenses. The economic deterioration of an operator could cause such operator to file for bankruptcy protection. The bankruptcy or insolvency of an operator may adversely affect the income produced by the property or properties it operates. Our financial position could be weakened and our ability to make distributions could be limited if any of our senior healthcare facility operators were unable to meet their financial obligations to us.

Our operators performance and economic condition may be negatively affected if they fail to comply with various complex federal and state laws that govern a wide array of referrals, relationships and licensure requirements in the senior healthcare industry. The violation of any of these laws or regulations by a senior healthcare facility operator may result in the imposition of fines or other penalties that could jeopardize that operator s ability to make payment obligations to us or to continue operating its facility. In addition, legislative proposals are commonly being introduced or proposed in federal and state legislatures that could affect major changes in the senior healthcare sector, either nationally or at the state level. It is impossible to say with any certainty whether this proposed legislation will be adopted or, if adopted, what effect such legislation would have on our facility operators and our senior healthcare operations.

***The unique nature of our senior healthcare properties may make it difficult to lease or transfer such properties and, as a result, may negatively affect our performance.***

Senior healthcare facilities present unique challenges with respect to leasing and transferring the same. Skilled nursing, assisted living and independent living facilities are typically highly customized and may not be easily modified to accommodate non-healthcare-related uses. As a result, these property types may not be suitable for lease to traditional office tenants or other healthcare tenants with unique needs without significant expenditures or renovations. These renovation costs may materially adversely affect our revenues, results of operations and financial condition. Furthermore, because transfers of healthcare facilities may be subject to regulatory approvals not required for transfers of other types of property, there may be significant delays in transferring operations of senior healthcare facilities to successor operators. If we are unable to efficiently transfer our senior healthcare properties our revenues and operations may suffer.

### Risks Related to Investments in Other Real Estate Related Assets

***Real estate related equity securities in which we may invest are subject to specific risks relating to the particular issuer of the securities and may be subject to the general risks of investing in subordinated real estate securities.***

We may invest in the common and preferred stock of both publicly traded and private real estate companies, which involves a higher degree of risk than debt securities due to a variety of factors, including the fact that such investments are subordinate to creditors and are not secured by the issuer s property. Our investments in real estate related equity securities will involve special risks relating to the particular issuer of the equity securities, including the financial condition and business outlook of the issuer. Issuers of real estate related common equity securities generally invest in real estate or other real estate related assets and are subject to the inherent risks associated with other real estate related assets discussed in this Annual Report on Form 10-K, including risks relating to rising interest rates.

***The mortgage or other real estate-related loans in which we may invest may be impacted by unfavorable real estate market conditions, which could decrease their value.***

If we make additional investments in mortgage loans, we will be at risk of loss on those investments, including losses as a result of defaults on mortgage loans. These losses may be caused by many conditions beyond our control, including economic conditions affecting real estate values, tenant defaults and lease expirations, interest rate levels and the other economic and liability risks associated with real estate described above under the heading Risks Related to Investments in Real Estate. If we acquire property by foreclosure following defaults under our mortgage loan investments, we will have the economic and liability risks as the owner described above. We do not know whether the values of the property securing any of our investments in other real estate related assets will remain at the levels existing on the dates we initially make the related investment. If the values of the underlying properties drop, our risk will increase and the values of our interests may decrease.

***Delays in liquidating defaulted mortgage loan investments could reduce our investment returns.***

If there are defaults under our mortgage loan investments, we may not be able to foreclose on or obtain a suitable remedy with respect to such investments. Specifically, we may not be able to repossess and sell the underlying properties quickly which could reduce the value of our investment. For example, an action to foreclose on a property securing a mortgage loan is regulated by state statutes and rules and is subject to many of the delays and expenses of lawsuits if the defendant raises defenses or counterclaims. Additionally, in the event of default by a mortgagor, these restrictions, among other things, may impede our ability to foreclose on or sell the mortgaged property or to obtain proceeds sufficient to repay all amounts due to us on the mortgage loan.

***We expect a portion of our investments in other real estate related assets to be illiquid and we may not be able to adjust our portfolio in response to changes in economic and other conditions.***

We may purchase other real estate related assets in connection with privately negotiated transactions which are not registered under the relevant securities laws, resulting in a prohibition against their transfer, sale, pledge or other disposition except in a transaction that is exempt from the registration requirements of, or is otherwise in accordance with, those laws. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited.

***Interest rate and related risks may cause the value of our investments in other real estate related assets to be reduced.***

Interest rate risk is the risk that fixed income securities such as preferred and debt securities, and to a lesser extent dividend paying common stocks, will decline in value because of changes in market interest rates. Generally, when market interest rates rise, the market value of such securities will decline, and vice versa. Our investment in such securities means that the net asset value and market price of the common shares may tend to decline if market interest rates rise.

During periods of rising interest rates, the average life of certain types of securities may be extended because of slower than expected principal payments. This may lock in a below-market interest rate, increase the security s duration and reduce the value of the security. This is known as extension risk. During periods of declining interest rates, an issuer may be able to exercise an option to prepay principal earlier than scheduled, which is generally known as call or prepayment risk. If this occurs, we may be forced to reinvest in lower yielding securities. This is known as reinvestment risk. Preferred and debt securities frequently have call features that allow the issuer to repurchase the security prior to its stated maturity. An issuer may redeem an obligation if the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer. These risks may reduce the value of our investments in other real estate related assets.

***If we liquidate prior to the maturity of our investments in real estate assets, we may be forced to sell those investments on unfavorable terms or at a loss.***

Our board of directors may choose to effect a liquidity event in which we liquidate our assets, including our investments in other real estate related assets. If we liquidate those investments prior to their maturity, we may be forced to sell those investments on unfavorable terms or at loss. For instance, if we are required to liquidate mortgage loans at a time when prevailing interest rates are higher than the interest rates of such mortgage loans, we would likely sell such loans at a discount to their stated principal values.

## Risks Related to Debt Financing

***We have and intend to incur mortgage indebtedness and other borrowings, which may increase our business risks, could hinder our ability to make distributions and could decrease the value of our company.***

We have and intend to continue to finance a portion of the purchase price of our investments in real estate and other real estate related assets by borrowing funds. We anticipate that, after an initial phase of our operations when we may employ greater amounts of leverage to enable us to purchase properties more quickly and therefore generate distributions for our stockholders sooner, our overall leverage will not exceed 60.0% of our properties and other real estate related assets combined fair market value of our assets. Under our charter, we have a limitation on borrowing which precludes us from borrowing in excess of 300.0% of the value of our net assets, without the approval of a majority of our independent directors. In addition, any excess borrowing must be disclosed to stockholders in our next quarterly report following the borrowing, along with justification for the excess. Net assets for purposes of this calculation are defined to be our total assets (other than intangibles), valued at cost prior to deducting depreciation or other non-cash reserves, less total liabilities. Generally speaking, the preceding calculation is expected to approximate 75.0% of the sum of: the aggregate cost of our real property investments before non-cash reserves and depreciation and the aggregate cost of our investments in other real estate related assets. In addition, we may incur mortgage debt and pledge some or all of our real properties as security for that debt to obtain funds to acquire additional real properties or for working capital. We may also borrow funds to satisfy the REIT tax qualification requirement that we distribute at least 90.0% of our annual ordinary taxable income to our stockholders. Furthermore, we may borrow if we otherwise deem it necessary or advisable to ensure that we maintain our qualification as a REIT for federal income tax purposes.

High debt levels will cause us to incur higher interest charges, which would result in higher debt service payments and could be accompanied by restrictive covenants. If there is a shortfall between the cash flow from a property and the cash flow needed to service mortgage debt on that property, then the amount available for distributions to our stockholders may be reduced. In addition, incurring mortgage debt increases the risk of loss since defaults on indebtedness secured by a property may result in lenders initiating foreclosure actions. In that case, we could lose the property securing the loan that is in default, thus reducing the value of our company. For tax purposes, a foreclosure on any of our properties will be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we will recognize taxable income on foreclosure, but we would not receive any cash proceeds. We may give full or partial guarantees to lenders of mortgage debt to the entities that own our properties. When we give a guaranty on behalf of an entity that owns one of our properties, we will be responsible to the lender for satisfaction of the debt if it is not paid by such entity. If any mortgage contains cross collateralization or cross default provisions, a default on a single property could affect multiple properties. If any of our properties are foreclosed upon due to a default, our ability to pay cash distributions to our stockholders will be adversely affected.

***Higher mortgage rates may make it more difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire and the amount of cash distributions we can make to our stockholders.***

If mortgage debt is unavailable on reasonable terms as a result of increased interest rates or other factors, we may not be able to utilize financing in our initial purchase of properties. In addition, if we place mortgage debt on properties, we run the risk of being unable to refinance such debt when the loans come due, or of being unable to refinance on favorable terms. If interest rates are higher when we refinance debt, our income could be reduced. We may be unable to refinance debt at appropriate times, which may require us to sell properties on terms that are not advantageous to us, or could result in the foreclosure of such properties. If any of these events occur, our cash flow would be reduced. This, in turn, would reduce cash available for distribution to our stockholders and may hinder our ability to raise more capital by issuing securities or by borrowing more money.

***Increases in interest rates could increase the amount of our debt payments and therefore negatively impact our operating results.***

Interest we pay on our debt obligations reduces cash available for distributions. Whenever we incur variable rate debt, increases in interest rates would increase our interest costs, which would reduce our cash flows and our ability to make distributions to our stockholders. If we need to repay existing debt during periods of rising interest rates, we could be required to liquidate one or more of our investments in properties at times which may not permit realization of the maximum return on such investments.

***Lenders may require us to enter into restrictive covenants relating to our operations, which could limit our ability to make distributions to our stockholders.***

When providing financing, a lender may impose restrictions on us that affect our ability to incur additional debt and affect our distribution and operating policies. Loan documents we enter into may contain covenants that limit our ability to further mortgage the property or discontinue insurance coverage. These or other limitations may adversely affect our flexibility and our ability to achieve our investment objectives.

***Hedging activity may expose us to risks.***

To the extent that we use derivative financial instruments to hedge against interest rate fluctuations, we will be exposed to credit risk and legal enforceability risks. In this context, credit risk is the failure of the counterparty to perform under the terms of the derivative contract. If the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. Legal enforceability risks encompass general contractual risks, including the risk that the counterparty will breach the terms of, or fail to perform its obligations under, the derivative contract. If we are unable to manage these risks effectively, our results of operations, financial condition and ability to pay distributions to our stockholders will be adversely affected.

34

***If we enter into financing arrangements involving balloon payment obligations, it may adversely affect our ability to refinance or sell properties on favorable terms, and to make distributions to stockholders.***

Some of our financing arrangements may require us to make a lump-sum or balloon payment at maturity. Our ability to make a balloon payment at maturity is uncertain and may depend upon our ability to obtain additional financing or our ability to sell the particular property. At the time the balloon payment is due, we may or may not be able to refinance the balloon payment on terms as favorable as the original loan or sell the particular property at a price sufficient to make the balloon payment. The refinancing or sale could affect the rate of return to stockholders and the projected time of disposition of our assets. In an environment of increasing mortgage rates, if we place mortgage debt on properties, we run the risk of being unable to refinance such debt if mortgage rates are higher at a time a balloon payment is due. In addition, payments of principal and interest made to service our debts, including balloon payments, may leave us with insufficient cash to pay the distributions that we are required to pay to maintain our qualification as a REIT. Any of these results would have a significant, negative impact on our stockholders investment.

**Risks Related to Joint Ventures**

***The terms of joint venture agreements or other joint ownership arrangements into which we have entered and may enter could impair our operating flexibility and our results of operations.***

In connection with the purchase of real estate, we have entered and may continue to enter into joint ventures with third parties. We may also purchase or develop properties in co-ownership arrangements with the sellers of the properties, developers or other persons. These structures involve participation in the investment by other parties whose interests and rights may not be the same as ours. Our joint venture partners may have rights to take some actions over which we have no control and may take actions contrary to our interests. Joint ownership of an investment in real estate may involve risks not associated with direct ownership of real estate, including the following:

- a venture partner may at any time have economic or other business interests or goals which become inconsistent with our business interests or goals, including inconsistent goals relating to the sale of properties held in a joint venture or the timing of the termination and liquidation of the venture;

- a venture partner might become bankrupt and such proceedings could have an adverse impact on the operation of the partnership or joint venture;

- actions taken by a venture partner might have the result of subjecting the property to liabilities in excess of those contemplated; and

- a venture partner may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives, including our policy with respect to qualifying and maintaining our qualification as a REIT.

Under certain joint venture arrangements, neither venture partner may have the power to control the venture, and an impasse could occur, which might adversely affect the joint venture and decrease potential returns to our stockholders. If we have a right of first refusal or buy/sell right to buy out a venture partner, we may be unable to finance such a buy-out or we may be forced to exercise those rights at a time when it would not otherwise be in our best interest to do so. If our interest is subject to a buy/sell right, we may not have sufficient cash, available borrowing capacity or other capital resources to allow us to purchase an interest of a venture partner subject to the buy/sell right, in which case we may be forced to sell our interest when we would otherwise prefer to retain our interest. In addition, we may not be able to sell our interest in a joint venture on a timely basis or on acceptable terms if we desire to exit the venture for any reason, particularly if our interest is subject to a right of first refusal of our venture partner.

35

Table of Contents

***We may structure our joint venture relationships in a manner which may limit the amount we participate in the cash flow or appreciation of an investment.***

We may enter into joint venture agreements, the economic terms of which may provide for the distribution of income to us otherwise than in direct proportion to our ownership interest in the joint venture. For example, while we and a co-venturer may invest an equal amount of capital in an investment, the investment may be structured such that we have a right to priority distributions of cash flow up to a certain target return while the co-venturer may receive a disproportionately greater share of cash flow than we are to receive once such target return has been achieved. This type of investment structure may result in the coventurer receiving more of the cash flow, including appreciation, of an investment than we would receive. If we do not accurately judge the appreciation prospects of a particular investment or structure the venture appropriately, we may incur losses on joint venture investments or have limited participation in the profits of a joint venture investment, either of which could reduce our ability to make cash distributions to our stockholders.

**Federal Income Tax Risks**

***Failure to qualify as a REIT for federal income tax purposes would subject us to federal income tax on our taxable income at regular corporate rates, which would substantially reduce our ability to make distributions to our stockholders.***

We elected to be taxed as a REIT for federal income tax purposes beginning with our taxable year ended December 31, 2007 and we intend to continue to be taxed as a REIT. To qualify as a REIT, we must meet various requirements set forth in the Internal Revenue Code concerning, among other things, the ownership of our outstanding common stock, the nature of our assets, the sources of our income and the amount of our distributions to our stockholders. The REIT qualification requirements are extremely complex, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Accordingly, we cannot be certain that we will be successful in operating so as to qualify as a REIT. At any time, new laws, interpretations or court decisions may change the federal tax laws relating to, or the federal income tax consequences of, qualification as a REIT. It is possible that future economic, market, legal, tax or other considerations may cause our board of directors to revoke our REIT election, which it may do without stockholder approval.

Although we have not requested, and do not expect to request, a ruling from IRS that we qualify as a REIT, our counsel, Alston & Bird LLP, has delivered an opinion to us that, commencing with our taxable year ended December 31, 2007 (the first year for which we elected to be taxed as a REIT), based on certain assumptions and representations, we have been organized and operated in conformity with the requirements for qualification as a REIT under the Internal Revenue Code, and our proposed method of operation will enable us to continue to operate in conformity with the requirements for qualification as a REIT under the Internal Revenue Code.

The validity of the opinion of our counsel and of our qualification as a REIT will depend on our continuing ability to meet the various REIT requirements under the Internal Revenue Code and as described herein. Opinions of counsel are not binding on the IRS or any court. The REIT qualification opinion only represents the view of our counsel based on its review and analysis of law existing at the time of the opinion and therefore could be subject to modification or withdrawal based on subsequent legislative, judicial or administrative changes to the federal income tax laws, any of which could be applied retroactively.

If we were to fail to qualify as a REIT for any taxable year, we would be subject to federal income tax on our taxable income at corporate rates. In addition, we would generally be disqualified from treatment as a REIT for the four taxable years following the year in which we lose our REIT status. Losing our REIT status would reduce our net earnings available for investment or distribution to stockholders because of the additional tax liability. In addition, distributions to stockholders would no longer be deductible in computing our taxable income, and we would no longer be required to make distributions. To the extent that distributions had been made in anticipation of our qualifying as a REIT, we might be required to borrow funds or liquidate some investments in order to pay the applicable corporate income tax. In addition, although we intend to operate in a manner intended to qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause our board of directors to recommend that we revoke our REIT election.

As a result of all these factors, our failure to qualify as a REIT could impair our ability to expand our business and raise capital, and would substantially reduce our ability to make distributions to our stockholders.

***To continue to qualify as a REIT and to avoid the payment of federal income and excise taxes and maintain our REIT status, we may be forced to borrow funds, use proceeds from the issuance of securities, or sell assets to pay distributions, which may result in our distributing amounts that may otherwise be used for our operations.***

To obtain the favorable tax treatment accorded to REITs, we normally will be required each year to distribute to our stockholders at least 90.0% of our taxable income, determined without regard to the deduction for distributions paid and by excluding net capital gains. We will be subject to federal income tax on our undistributed taxable income and net capital gain and to a 4.0% nondeductible excise tax on any amount by which distributions we pay with respect to any calendar year are less than the sum of: (1) 85.0% of our ordinary income, (2) 95.0% of our capital gain net income and (3) 100% of our undistributed income from prior years. These requirements could cause us to distribute amounts that otherwise would be spent on acquisitions of properties and it is possible that we might be required to borrow funds, use proceeds from the issuance of securities or sell assets in order to distribute enough of our taxable income to maintain our REIT status and to avoid the payment of federal income and excise taxes.

***If our operating partnership fails to maintain its status as a partnership for federal income tax purposes, its income would be subject to taxation and our REIT status would be terminated.***

We intend to maintain the status of our operating partnership as a partnership for federal income tax purposes. However, if the IRS were to successfully challenge the status of our operating partnership as a partnership, it would be taxable as a corporation. In such event, this would reduce the amount of distributions that our operating partnership could make to us. This would also result in our losing REIT status and becoming subject to a corporate level tax on our own income. This would substantially reduce our cash available to pay distributions and the return on our stockholders investment. In addition, if any of the entities through which our operating partnership owns its properties, in whole or in part, loses its characterization as a partnership for federal income tax purposes, it would be subject to taxation as a corporation, thereby reducing distributions to our operating partnership. Such a recharacterization of our operating partnership or an underlying property owner could also threaten our ability to maintain our REIT status.

***Investors may have a current tax liability on distributions they elect to reinvest in shares of our common stock.***

If our stockholders participate in our distribution reinvestment plan, they will be deemed to have received, and for income tax purposes will be taxed on, the amount reinvested in shares of our common stock to the extent the amount reinvested was not a tax-free return of capital. As a result, unless our stockholders are a tax-exempt entity our stockholders may have to use funds from other sources to pay their tax liability on the value of the common stock received.

***Dividends paid by REITs do not qualify for the reduced tax rates that apply to other corporate dividends.***

Tax legislation enacted in 2003 and 2006 generally reduces the maximum tax rate for qualified dividends paid by corporations to individuals to 15.0% through 2010. Dividends paid by REITs, however, generally continue to be taxed at the normal rate applicable to the individual recipient, rather than the 15.0% preferential rate. Although this legislation does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular corporate dividends could cause potential investors who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay qualified dividends, which could adversely affect the value of the stock of REITs, including our common stock.

***In certain circumstances, we may be subject to federal and state income taxes as a REIT, which would reduce our cash available for distribution to our stockholders.***

Even if we qualify and maintain our status as a REIT, we may be subject to federal income taxes or state taxes. For example, net income from a prohibited transaction will be subject to a 100% tax. We may not be able to make sufficient distributions to avoid excise taxes applicable to REITs. We may also decide to retain capital gains we earn from the sale or other disposition of our property and pay income tax directly on such income. In that event, our stockholders would be treated as if they earned that income and paid the tax on it directly. However, our stockholders that are tax-exempt, such as charities or qualified pension plans, would have no benefit from their deemed payment of such tax liability. We may also be subject to state and local taxes on our income or property, either directly or at the level of the companies through which we indirectly own our assets. Any federal or state taxes we pay will reduce our cash available for distribution to our stockholders.

***Distributions to tax-exempt stockholders may be classified as unrelated business taxable income.***

Neither ordinary nor capital gain distributions with respect to our common stock nor gain from the sale of common stock should generally constitute unrelated business taxable income to a tax-exempt stockholder. However, there are certain exceptions to this rule. In particular:

- part of the income and gain recognized by certain qualified employee pension trusts with respect to our common stock may be treated as unrelated business taxable income if shares of our common stock are predominately held by qualified employee pension trusts, and we are required to rely on a special look-through rule for purposes of meeting one of the REIT share ownership tests, and we are not operated in a manner to avoid treatment of such income or gain as unrelated business taxable income;

- part of the income and gain recognized by a tax exempt stockholder with respect to our common stock would constitute unrelated business taxable income if the stockholder incurs debt in order to acquire the common stock; and

- part or all of the income or gain recognized with respect to our common stock by social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans which are exempt from federal income taxation under Sections 501(c)(7), (9), (17) or (20) of the Internal Revenue Code may be treated as unrelated business taxable income.

***Complying with the REIT requirements may cause us to forego otherwise attractive opportunities.***

To continue to qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of shares of our common stock. We may be required to make distributions to our stockholders at disadvantageous times or when we do not have funds readily available for distribution, or we may be required to liquidate otherwise attractive investments in order to comply with the REIT tests. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

***Changes to federal income tax laws or regulations could adversely affect stockholders.***

In recent years, numerous legislative, judicial and administrative changes have been made to the federal income tax laws applicable to investments in REITs and similar entities. Additional changes to tax laws are likely to continue to occur in the future, and we cannot assure our stockholders that any such changes will not adversely affect the taxation of a stockholder. Any such changes could have an adverse effect on an investment in shares of our common stock. We urge prospective investors to consult with their own tax advisor with respect to the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in shares of our common stock.

***Foreign purchasers of shares of our common stock may be subject to FIRPTA tax upon the sale of their shares of our common stock.***

A foreign person disposing of a U.S. real property interest, including shares of stock of a U.S. corporation whose assets consist principally of U.S. real property interests, is generally subject to the Foreign Investment in Real Property Tax Act of 1980, as amended, or FIRPTA, on the gain recognized on the disposition. Such FIRPTA tax does not apply, however, to the disposition of stock in a REIT if the REIT is domestically controlled. A REIT is domestically controlled if less than 50.0% of the REIT s stock, by value, has been owned directly or indirectly by persons who are not qualifying U.S. persons during a continuous five-year period ending on the date of disposition or, if shorter, during the entire period of the REIT s existence. We cannot assure our stockholders that we will continue to qualify as a domestically controlled REIT. If we were to fail to continue to so qualify, gain realized by foreign investors on a sale of shares of our common stock would be subject to FIRPTA tax, unless the shares of our common stock were traded on an established securities market and the foreign investor did not at any time during a specified testing period directly or indirectly own more than 5.0% of the value of our outstanding common stock.

***Foreign stockholders may be subject to FIRPTA tax upon the payment of a capital gains dividend.***

A foreign stockholder also may be subject to FIRPTA upon the payment of any capital gain dividends by us, which dividend is attributable to gain from sales or exchanges of U.S. real property interests.

**Employee Benefit Plan and IRA Risks**

We, and our stockholders that are employee benefit plans or individual retirement accounts, or IRAs, will be subject to risks relating specifically to our having employee benefit plans and IRAs as stockholders, which risks are discussed below.

***If investors fail to meet the fiduciary and other standards under ERISA or the Internal Revenue Code as a result of an investment in our common stock, they could be subject to criminal and civil penalties.***

There are special considerations that apply to pension, profit-sharing trusts or IRAs investing in our common stock. If investors are investing the assets of a pension, profit sharing or 401(k) plan, health or welfare plan, or an IRA in us, they should consider:

- whether the investment is consistent with the applicable provisions of ERISA and the Internal Revenue Code, or any other applicable governing authority in the case of a government plan;
- whether the investment is made in accordance with the documents and instruments governing their plan or IRA, including their plan s investment policy;
- whether the investment satisfies the prudence and diversification requirements of Sections 404(a)(1)(B) and 404(a)(1)(C) of ERISA;
- whether the investment will impair the liquidity of the plan or IRA;
- whether the investment will produce unrelated business taxable income, referred to as UBTI and as defined in Sections 511 through 514 of the Internal Revenue Code, to the plan or IRA; and
- their need to value the assets of the plan annually in accordance with ERISA and the Internal Revenue Code.

In addition to considering their fiduciary responsibilities under ERISA and the prohibited transaction rules of ERISA and the Internal Revenue Code, trustees or others purchasing shares should consider the effect of the plan asset regulations of the U.S. Department of Labor. To avoid our assets from being considered plan assets under those regulations, our charter prohibits benefit plan investors from owning 25.0% or more of our common stock prior to the time that the common stock qualifies as a class of publicly-offered securities, within the meaning of the ERISA plan asset regulations. However, we cannot assure our stockholders that those provisions in our charter will be effective in limiting benefit plan investor ownership to less than the

**Table of Contents**

25.0% limit. For example, the limit could be unintentionally exceeded if a benefit plan investor misrepresents its status as a benefit plan. Even if our assets are not considered to be plan assets, a prohibited transaction could occur if we or any of our affiliates is a fiduciary (within the meaning of ERISA) with respect to an employee benefit plan or IRA purchasing shares, and, therefore, in the event any such persons are fiduciaries (within the meaning of ERISA) of a plan or IRA, investors should not purchase shares unless an administrative or statutory exemption applies to the purchase.

Governmental plans, church plans, and foreign plans generally are not subject to ERISA or the prohibited transaction rules of the Internal Revenue Code, but may be subject to similar restrictions under other laws. A plan fiduciary making an investment in our shares on behalf of such a plan should consider whether the investment is in accordance with applicable law and governing plan documents.

## Item 1B. Unresolved Staff Comments.

Not applicable.

## Item 2. Properties.

As of December 31, 2009, we leased our principal executive offices located at The Promenade, 16427 North Scottsdale Road, Suite 440, Scottsdale, AZ 85254.

As of December 31, 2009, we had made 53 geographically diverse acquisitions, 41 of which are medical office properties, seven of which are healthcare-related facilities, three of which are quality commercial office properties, and two of which are other real estate-related assets, comprising 179 buildings with 7,407,000 square feet of GLA, for an aggregate purchase price of $1,408,176,000, in 21 states.

The following table presents certain additional information about our properties as of December 31, 2009:

| | Property Location | GLA (Sq Ft) | % of GLA | Ownership Percentage | Date Acquired | Purchase Price | Annual Rent(1) | % of Total Annual Rent | Occupancy(2) |
|---|---|---|---|---|---|---|---|---|---|
| nte rke | Indianapolis, IN | 97,000 | 1.3% | 100% | 1/22/2007 | $ 14,800,000 | $ 1,081,000 | 0.8% | 72.2% |
| sville rk ns Center | Crawfordsville, IN | 29,000 | 0.4 | 100% | 1/22/2007 | 6,900,000 | 592,000 | 0.5 | 100 |
| ery nal | St. Paul, MN | 106,000 | 1.4 | 100% | 3/9/2007 | 8,800,000 | 1,177,000 | 0.9 | 73.6 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| ffice lding | Memphis, TN | 98,000 | 1.3 | 100% | 3/23/2007 | 18,500,000 | 2,220,000 | 1.7 | 100 |
| s V Office | Naples, FL | 55,000 | 0.7 | 100% | 4/24/2007 | 14,100,000 | 1,160,000 | 0.9 | 100 |
| n Center Center | Fayetteville and Peachtree City, GA | 108,000 | 1.5 | 100% | 5/2/2007 | 21,500,000 | 1,945,000 | 1.5 | 80.6 |
| bird Plaza | Glendale, AZ | 110,000 | 1.5 | 100% | 5/15/2007 | 25,000,000 | 1,965,000 | 1.5 | 72.7 |
| st and st | Houston and Sugar Land, TX | 151,000 | 2 | 100% | 6/8/2007 | 36,500,000 | 2,990,000 | 2.3 | 100 |
| nal | Lawrenceville, GA | 60,000 | 0.8 | 100% | 7/27/2007 | 9,300,000 | 889,000 | 0.7 | 63.3 |
| arket e | Columbus, OH | 116,000 | 1.6 | 100% | 8/15/2007 | 21,900,000 | 1,516,000 | 1.2 | 85.3 |
| Office | Kokomo, IN | 87,000 | 1.2 | 100% | 8/30/2007 | 13,350,000 | 1,369,000 | 1.1 | 100 |
| ns | Long Beach, CA | 67,000 | 0.9 | 100% | 9/5/2007 | 13,800,000 | 1,101,000 | 0.9 | 67.2 |
| nroe d | Valley Forge, PA | 109,000 | 1.5 | 100% | 9/10/2007 | 26,700,000 | 2,776,000 | 2.2 | 100 |
| ida are | Jacksonville, Winter Park and Sunrise, FL | 355,000 | 4.8 | 100% | 9/28/2007 | 52,000,000 | 4,303,000 | 3.4 | 100 |
| adow Center | Roswell, GA | 51,000 | 0.7 | 100% | 11/15/2007 | 11,850,000 | 1,261,000 | 1 | 98 |
| Office | Tucson, AZ | 110,000 | 1.5 | 100% | 11/20/2007 | 21,050,000 | 1,619,000 | 1.3 | 69.1 |
| dical | Lima, OH | 203,000 | 2.7 | 100% | Various | 26,060,000 | 2,120,000 | 1.7 | 80.3 |
| s edical | Highlands Ranch, CO | 79,000 | 1.1 | 100% | 12/19/2007 | 14,500,000 | 1,621,000 | 1.3 | 82.3 |
| eld ation | Chesterfield, MO | 112,000 | 1.5 | 80% | 12/19/2007 | 36,440,000 | 3,082,000 | 2.4 | 100 |
| e rk | Dayton, OH | 132,000 | 1.8 | 100% | 12/20/2007 | 16,200,000 | 1,864,000 | 1.5 | 84.1 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1<br>d | Overland, KS and Largo, Brandon and Lakeland, FL | 163,000 | 2.2 | 100% | 2/1/2008 | 36,950,000 | 3,391,000 | 2.7 | 91.4 |
| | St. Paul, MN | 50,000 | 0.7 | 100% | 3/6/2008 | 8,650,000 | 633,000 | 0.5 | 78 |

| | Property Location | GLA (Sq Ft) | % of GLA | Ownership Percentage | Date Acquired | Purchase Price | Annual Rent(1) | % Total of Annual Rent | Occu |
|---|---|---|---|---|---|---|---|---|---|
| al | Liberty Township, OH | 44,000 | 0.6 | 100% | 3/19/2008 | 8,150,000 | 637,000 | 0.5 | |
| g B | Indianapolis, IN | 34,000 | 0.5 | 100% | 3/24/2008 | 5,850,000 | 471,000 | 0.4 | |
| dical | Houston, TX | 52,000 | 0.7 | 100% | 3/25/2008 | 11,200,000 | 936,000 | 0.7 | |
| Center | Lakeland, Fl | 32,000 | 0.4 | 100% | 3/27/2008 | 5,250,000 | 368,000 | 0.3 | |
| o 1 | Arlington, Galveston, Port Arthur and Texas City, TX and Lomita and El Monte, CA | 226,000 | 3.1 | 100% | Various | 39,600,000 | 3,462,000 | 2.7 | |
| | Amarillo, TX | 65,000 | 0.9 | 100% | 5/15/2008 | 20,000,000 | 1,666,000 | 1.3 | |
| | Cypress, CA | 104,000 | 1.4 | 100% | 5/29/2008 | 25,700,000 | 2,004,000 | 1.6 | |
| al | Derry, NH | 70,000 | 0.9 | 100% | 6/3/2008 | 14,200,000 | 1,163,000 | 0.9 | |
| Plaza | Stockbridge, GA | 81,000 | 1.1 | 100% | 6/24/2008 | 21,176,000 | 1,577,000 | 1.2 | |
| | Indianapolis, IN | 685,000 | 9.2 | 100% | 6/26/2008 | 90,100,000 | 9,285,000 | 7.3 | |
| Center | Tucson, AZ | 41,000 | 0.6 | 100% | 6/26/2008 | 8,100,000 | 774,000 | 0.6 | |
| za | Decatur, GA | 43,000 | 0.6 | 100% | 6/27/2008 | 12,000,000 | 1,060,000 | 0.8 | |
| | O Fallon and St. Louis, MO and Keller and Wichita Falls, TX | 173,000 | 2.3 | 100% | Various | 44,800,000 | 3,789,000 | 3 | |
| al | Bountiful, UT | 112,000 | 1.5 | 100% | 6/30/2008 | 30,200,000 | 2,234,000 | 1.7 | |
| dical | Oklahoma City, OK | 186,000 | 2.5 | 100% | 9/16/2008 | 29,250,000 | 3,563,000 | 2.8 | |
| | Phoenix, AZ, Parma and Jefferson West, OH, and Waxahachie, Greenville, and Cedar Hill, TX | 227,000 | 3.1 | 100% | Various | 48,000,000 | 4,212,000 | 3.3 | |
| rtfolio | Kingsport, Bristol and Rogersville, TN and Pennington Gap and Norton, VA | 293,000 | 4 | 100% | Various | 27,775,000 | 3,956,000 | 3.0 | |
| rtfolio | San Antonio and Webster, TX | 170,000 | 2.3 | 100% | 12/18/2008 | 43,000,000 | 3,889,000 | 3 | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| k | Marietta, GA | 81,000 | 1.1 | 100% | 12/22/2008 | 15,300,000 | 1,083,000 | 0.8 |
| | Milwaukee, WI | 185,000 | 2.5 | 100% | 2/27/2009 | 33,719,000 | 2,871,000 | 2.2 |
| | Franklin, WI | 130,000 | 1.8 | 100% | 5/28/2009 | 40,700,000 | 3,435,000 | 2.7 |
| | Greenville, SC | 857,000 | 11.6 | 100% | 9/18/2009 | 162,820,000 | 14,417,000 | 11.3 |
| l | Spartanburg, SC | 109,000 | 1.5 | 100% | 12/11/2009 | 16,250,000 | 1,563,000 | 1.2 |
| dical | Englewood, CO | 66,000 | 0.9 | 100% | 12/21/2009 | 18,600,000 | 1,594,000 | 1.2 |
| tal | Dallas, TX | 52,000 | 0.7 | 100% | 12/23/2009 | 27,350,000 | 2,598,000 | 2 |
| | Baltimore, MD | 62,000 | 0.8 | 100% | 12/30/2009 | 11,250,000 | 1,039,000 | 0.8 |
| olio | Corsicana, TX and Ft. Wayne, IN and San Angelo, TX | 93,000 | 1.3 | 100% | 12/30/2009 | 20,501,000 | 1,790,000 | 1.4 |
| ital | Denton, TX | 44,000 | 0.6 | 100% | 12/30/2009 | 15,485,000 | 1,364,000 | 1.1 |
| edical | Sun City, AZ and Sun City West, AZ | 642,000 | 8.7 | 100% | 12/31/2009 | 107,000,000 | 10,265,000 | 8 |
| **erage** | | 7,407,000 | 100% | | | $ 1,408,176,000 | $ 127,740,000 | 100% |

(1) Annualized rental revenue is based on contractual base rent from leases in effect as of December 31, 2009.

(2) Occupancy includes all leased space of the respective portfolio including master leases.

(3) Average annual rent per occupied square foot as of December 31, 2009.

Each of the above properties is a hospital, skilled nursing and assisted living facility or medical office building, the principal tenants of which are healthcare providers or healthcare-related service providers. Each of the properties listed above is 100% owned by our operating partnership, except for Chesterfield Rehabilitation Center, which is 80.0% owned by our operating partnership through a joint venture.

We own fee simple interests in all of our properties except: (1) Lenox Office Park, Building G, (2) Lima Medical Office Portfolio, (3) Medical Portfolio 1, (4) Medical Portfolio 4, (5) Mountain Empire Portfolio, (6) Oklahoma City Medical Portfolio, (7) Senior Care Portfolio 1 and (8) Tucson Medical Office Portfolio. Lenox Office Park, Building G is comprised of both Lenox Office Park, Building G, in which we hold a leasehold interest, or ground leases, and two parcels of land, in which we own a fee simple interest. Lima Medical Office Portfolio consists of six medical office buildings, four of which we hold ground lease interests in certain condominiums within each building, and two of which we own a fee simple interest. Medical Portfolio 1 is comprised of five properties, one in which we hold a ground lease interest, and the other four in which we own fee simple interests. Medical Portfolio 4 is comprised of five properties, one in which we hold a ground lease interest, and the other four in which we own fee simple interests. Mountain Empire Portfolio is comprised of 11 properties, eight in which we hold a ground lease interest, and the other three in which we own fee simple interests. Oklahoma City Medical Portfolio is comprised of two properties, both in which we hold ground lease interests. Senior Care Portfolio 1 consists of six properties, one of which we hold a partial ground lease interest and a partial fee simple interest, and five of which we own a fee simple interest. Tucson Medical Office Portfolio is comprised of two properties, one in which we hold a leasehold interest, and the other in which we own a fee simple interest.

The following information generally applies to our properties:

- we believe all of our properties are adequately covered by insurance and are suitable for their intended purposes;
- our properties are located in markets where we are subject to competition in attracting new tenants and retaining current tenants; and
- depreciation is provided on a straight-line basis over the estimated useful lives of the buildings, 39 years, and over the shorter of the lease term or useful lives of the tenant improvements.

**Lease Expirations**

The following table presents the sensitivity of our annual base rent due to lease expirations for the next 10 years at our properties, by number, square feet, percentage of leased area, annual base rent, and percentage of annual rent as of December 31, 2009.

| Year Ending December 31, | Number of Leases Expiring | Total Sq. Ft. of Expiring Leases | % of Leased Area Represented by Expiring Leases | Annual Rent Under Expiring Leases | % of Total Annual Rent Represented by Expiring Leases(1) |
|---|---|---|---|---|---|
| 2010 | 126 | 353,000 | 6.0% | $ 6,920,000 | 6.4% |
| 2011 | 123 | 501,000 | 8.6 | 9,918,000 | 9.1 |
| 2012 | 146 | 515,000 | 8.8 | 9,476,000 | 8.7 |
| 2013 | 117 | 690,000 | 11.8 | 13,032,000 | 12.0 |
| 2014 | 91 | 653,000 | 11.2 | 9,669,000 | 8.9 |

| | | | | | |
|---|---|---|---|---|---|
| 2015 | 35 | 296,000 | 5.1 | 6,671,000 | 6.1 |
| 2016 | 47 | 369,000 | 6.3 | 6,812,000 | 6.3 |
| 2017 | 43 | 332,000 | 5.7 | 6,103,000 | 5.6 |
| 2018 | 54 | 434,000 | 7.4 | 7,925,000 | 7.3 |
| 2019 | 39 | 222,000 | 3.8 | 4,683,000 | 4.3 |
| 2020 | 43 | 167,000 | 2.9 | 2,780,000 | 2.6 |
| Thereafter | 45 | 1,304,000 | 22.3 | 24,595,000 | 22.7 |
| **Total** | 909 | 5,836,000 | 100% | $ 108,584,000 | 100% |

(1) The annual rent percentage is based on the total annual contractual base rent as of December 31, 2009.

Table of Contents

**Geographic Diversification/Concentration Table**

The following table lists the states in which our properties are located and provides certain information regarding our portfolio s geographic diversification/concentration as of December 31, 2009.

| State | Number of Properties(1) | GLA (Square Feet) | % of GLA | 2009 Annual Base Rent(2) | % of 2009 Annual Base Rent |
|---|---|---|---|---|---|
| Arizona | 5 | 984,000 | 13.3% | $ 16,427,000 | 12.9% |
| California | 3 | 242,000 | 3.3 | 3,858,000 | 3 |
| Colorado | 2 | 145,000 | 2 | 3,215,000 | 2.5 |
| Florida | 4 | 542,000 | 7.3 | 9,721,000 | 7.6 |
| Georgia | 6 | 424,000 | 5.7 | 5,870,000 | 4.6 |
| Indiana | 6 | 960,000 | 13 | 13,510,000 | 10.6 |
| Kansas | 1 | 63,000 | 0.9 | 1,446,000 | 1.1 |
| Maryland | 1 | 62,000 | 0.8 | 1,039,000 | 0.8 |
| Minnesota | 2 | 156,000 | 2.1 | 1,810,000 | 1.4 |
| Missouri | 2 | 249,000 | 3.4 | 6,009,000 | 4.7 |
| New Hampshire | 1 | 70,000 | 0.9 | 1,163,000 | 0.9 |
| Ohio | 5 | 526,000 | 7.1 | 6,547,000 | 5.1 |
| Oklahoma | 1 | 186,000 | 2.5 | 3,563,000 | 2.8 |
| Pennsylvania | 1 | 109,000 | 1.5 | 2,776,000 | 2.2 |
| South Carolina | 2 | 966,000 | 13 | 15,980,000 | 12.5 |
| Tennessee | 2 | 328,000 | 4.4 | 5,567,000 | 4.4 |
| Texas | 10 | 905,000 | 12.2 | 20,090,000 | 15.7 |
| Utah | 1 | 112,000 | 1.5 | 2,234,000 | 1.8 |
| Virginia | 1 | 63,000 | 0.9 | 609,000 | 0.5 |
| Wisconsin | 2 | 315,000 | 4.2 | 6,306,000 | 4.9 |
| **Total** | | 7,407,000 | 100% | $ 127,740,000 | 100% |

(1) In certain cases we have acquired portfolios that include properties in multiple states.

(2) Annualized rental revenue is based on contractual base rent from leases in effect as of December 31, 2009.

**Indebtedness**

See Note 7, Mortgage Loans Payable, Net and Unsecured Notes Payable to Affiliate, to our accompanying consolidated financial statements, Note 8, Derivative Financial Instruments, to our accompanying consolidated financial statements, and Note 9, Line of Credit, to our accompanying consolidated financial statements for a further discussion of our indebtedness.

**Item 3. Legal Proceedings.**

None.

**Item 4. Reserved.**

## PART II

### Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

**Market Information**

There is no established public trading market for shares of our common stock.

In order for members of the Financial Industry Regulatory Authority, or FINRA, and their associated persons to participate in our offerings of shares of our common stock, we are required to disclose in each annual report distributed to stockholders a per share estimated value of the shares, the method by which it was developed, and the date of the data used to develop the estimated value. In addition, we will prepare annual statements of estimated share values to assist fiduciaries of retirement plans subject to the annual reporting requirements of ERISA in the preparation of their reports relating to an investment in shares of our common stock. For these purposes, management s estimated value of the shares is $10.00 per share as of December 31, 2009. The basis for this valuation is the fact that the current public offering price for shares of our common stock is $10.00 per share (ignoring purchase price discounts for certain categories of purchasers). However, there is no public trading market for the shares of our common stock at this time, and there can be no assurance that stockholders could receive $10.00 per share if such a market did exist and they sold their shares of our common stock or that they will be able to receive such amount for their shares of our common stock in the future. Until 18 months after the later of the completion of our initial offering or any subsequent offering of shares of our common stock, we intend to continue to use the offering price of shares of our common stock in our most recent offering as the estimated per share value reported in our Annual Reports on Form 10-K distributed to stockholders. Beginning 18 months after the last offering of shares of our common stock, the value of the properties and our other assets will be determined in a manner deemed appropriate by our board of directors, and we will disclose the resulting estimated per share value in our Annual Reports on Form 10-K distributed to stockholders.

**Stockholders**

As of March 12, 2010, we had approximately 39,000 stockholders of record.

**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, or $0.65 per common share, 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. Thereafter, distributions were paid on or about the 15th day of each month in respect of the distributions declared for the prior month. On February 14, 2007, our board of directors approved a 7.25% per annum, or $0.725 per common share, distribution to be paid to our stockholders beginning with our February 2007 monthly distribution, which was paid in March 2007, and we continued to pay distributions at that rate through December 31, 2009. It is our intent to continue to pay distributions. However, we cannot guarantee the amount of distributions paid in the future, if any.

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 year ended December 31, 2009, we paid distributions of $78,059,000 ($39,499,000 in cash and $38,559,000 in shares of our common stock pursuant to the DRIP), as compared to cash flows from operations of $21,001,000. Cash flows from operations was reduced by $15,997,000 and $0 for the years ended

Table of Contents

December 31, 2009 and 2008 for acquisition-related expenses. Acquisition-related expenses were previously capitalized as a part of the purchase price allocations and have historically been included in cash flows from investing activities. Excluding such acquisition-related expenses the comparable cash flows from operations for the year ended December 31, 2009 would have been $36,998,000. From inception through December 31, 2009, we paid cumulative distributions of $112,097,000 ($57,765,000 in cash and $54,332,000 in shares of our common stock pursuant to the DRIP), as compared to cumulative cash flows from operations of $48,683,000. Comparable cumulative cash flows from operations would have totaled $65,610,000 under previous accounting rules that allowed for capitalization of acquisition-related expenses which would therefore have been included in cash flows from investing. The distributions paid in excess of our cash flows from operations were paid using proceeds from our initial offering.

For the years ended December 31, 2009 and 2008, our Funds from operations, or FFO, was $28,314,000 and $8,745,000, respectively. FFO was reduced by $19,715,000 and $0 for the years ended December 31, 2009 and 2008 for certain one-time, non-recurring transition charges and acquisition-related expenses. Acquisition-related expenses were previously capitalized as part of the purchase price allocations and have historically been added back to FFO over time through depreciation. For the years ended December 31, 2009 and 2008 we paid distributions of $78,059,000 and $28,042,000, respectively. Such amounts were covered by FFO of $28,314,000 and $8,745,000, respectively, which is net of the one-time transition charges and acquisition-related costs of $19,715,000 and $0, respectively. The distributions paid in excess of our FFO were paid using proceeds from our initial offering. Excluding such one-time non-recurring transition charges and acquisition-related costs FFO would have been $48,029,000 and $8,745,000, respectively.

FFO and MFFO are non-GAAP measures. See our disclosure regarding FFO and MFFO in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Funds From Operations and Modified Funds From Operations.

**Securities Authorized for Issuance under Equity Compensation Plans**

See Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters Equity Compensation Plan Information, for a discussion of our equity compensation plan information.

**Use of Public Offering Proceeds**

On September 20, 2006, we commenced our initial public offering, in which we are offering a minimum of 200,000 shares of our common stock aggregating at least $2,000,000, and a maximum of 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 the DRIP, at $9.50 per share, aggregating up to $2,200,000,000. The shares offered have been registered with the SEC on a Registration Statement on Form S-11 (File No. 333-133652) under the Securities Act of 1933, as amended, which was declared effective by the SEC on September 20, 2006. Our initial offering has been extended pursuant to Rule 415 under the Securities Act of 1933, as amended, and will expire no later than March 19, 2010.

As of December 31, 2009, we had received and accepted subscriptions for 136,958,458 shares of our common stock, or $1,368,087,211. As of December 31, 2009, a total of $39,499,000 in distributions were reinvested and $38,559,000 in shares of our common stock were issued under the DRIP. For the year ended December 31, 2009, the ratio of the cost of raising capital to the capital raised was approximately 10.4%.

As of December 31, 2009, we have used $952,707,000 in offering proceeds to make our 53 geographically diverse acquisitions and repay debt incurred in connection with such acquisitions.

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Our share repurchase plan allows for share repurchases by us when certain criteria are met by our stockholders. Share repurchases will be made at the sole discretion of our board of directors. Funds for the

Table of Contents

repurchase of shares of our common stock will come exclusively from the proceeds we receive from the sale of shares under the DRIP during the prior twelve months.

During the three months ended December 31, 2009, we repurchased shares of our common stock as follows:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan or Program(1) | Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| October 1, 2009 to October 31, 2009 | 880,704 | $ 9.46 | 880,704 | (2) |
| November 1, 2009 to November 30, 2009 | 56,135 | $ 9.37 | 56,135 | (2) |
| December 1, 2009 to December 31, 2009 | 2,060 | $ 9.40 | 2,060 | (2) |

(1) Our board of directors adopted a share repurchase plan effective September 20, 2006. Our board of directors adopted, and we publicly announced, an amended share repurchase plan effective August 25, 2008. From inception through December 31, 2009, we had repurchased 1,048,647 shares of our common stock pursuant to our share repurchase plan. Our share repurchase plan does not have an expiration date but may be terminated at our board of directors discretion.

(2) Repurchases under our share repurchase plan are subject to the discretion of our board of directors. The plan provides that repurchases are subject to funds being available and are limited in any calendar year to 5.0% of the weighted average number of shares of our common stock outstanding during the prior calendar year.

**Item 6. Selected Financial Data.**

The following should be read with Item 1A. Risk Factors and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the notes thereto. Our historical results are not necessarily indicative of results for any future period.

The following tables present summarized consolidated financial information, including balance sheet data, statement of operations data, and statement of cash flows data in a format consistent with our consolidated financial statements under Item 15. Exhibits, Financial Statement Schedules.

| | December 31, 2009 | December 31, 2008 | December 31, 2007 | December 31, 2006 | April 28, 2006 (Date of Inception) |
|---|---|---|---|---|---|
| BALANCE SHEET DATA: | | | | | |
| Total assets | $ 1,673,535,000 | $ 1,113,923,000 | $ 431,612,000 | $ 385,000 | $ 202,000 |
| Mortgage loans payable, net | $ 540,028,000 | $ 460,762,000 | $ 185,801,000 | $ | $ |
| Stockholders equity (deficit) | $ 1,071,317,000 | $ 599,320,000 | $ 175,590,000 | $ (189,000) | $ 2,000 |

| | Years Ended December 31, 2009 | Years Ended December 31, 2008 | Years Ended December 31, 2007 | Period from April 28, 2006 (Date of Inception) through December 31, 2006 |
|---|---|---|---|---|
| STATEMENT OF OPERATIONS DATA: | | | | |
| Total revenues | $ 129,486,000 | $ 80,418,000 | $ 17,626,000 | $ |
| Net Loss | $ (24,773,000) | $ (28,409,000) | $ (7,674,000) | $ (242,000) |
| Net loss attributable to controlling interest | $ (25,077,000) | $ (28,448,000) | $ (7,666,000) | $ (242,000) |
| Loss per share basic and diluted(1): | | | | |
| Net Loss | $ (0.22) | $ (0.66) | $ (0.77) | $ (149.03) |
| Net loss attributable to controlling interest | $ (0.22) | $ (0.66) | $ (0.77) | $ (149.03) |
| STATEMENT OF CASH FLOWS DATA: | | | | |
| Cash flows provided by operating activities | $ 21,001,000 | $ 20,677,000 | $ 7,005,000 | $ |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Cash flows used in investing activities | $ | 454,855,000 | $ | (526,475,000) | $ | (385,440,000) | $ | |
| Cash flows provided by financing activities | $ | 524,524,000 | $ | 628,662,000 | $ | 383,700,000 | $ | 202,000 |
| OTHER DATA: | | | | | | | | |
| Distributions declared | $ | 82,221,000 | $ | 31,180,000 | $ | 7,250,000 | $ | |
| Distributions declared per share | $ | 0.73 | $ | 0.73 | $ | 0.70 | $ | |
| Funds from operations(2) | $ | 28,314,000 | $ | 8,745,000 | $ | 2,124,000 | $ | (242,000) |
| Modified Funds From Operations(2) | $ | 48,029,000 | $ | 8,757,000 | $ | 2,124,000 | $ | (242,000) |
| Net operating income(3) | $ | 84,462,000 | $ | 52,244,000 | $ | 11,589,000 | $ | |

(1) Net loss per share is based upon the weighted average number of shares of our common stock outstanding. Distributions by us of our current and accumulated earnings and profits for federal income tax purposes are taxable to stockholders as ordinary income. Distributions in excess of these earnings and profits generally are treated as a non-taxable reduction of the stockholder s basis in the shares of our common stock to the extent thereof (a return of capital for tax purposes) and, thereafter, as taxable gain. These distributions in excess of earnings and profits will have the effect of deferring taxation of the distributions until the sale of the stockholder s common stock.

(2) For additional information on FFO, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Funds from Operations and Modified Funds From Operations, which includes a reconciliation of our GAAP net income(loss) to FFO and MFFO for the years ended December 31, 2009, 2008 and 2007.

(3) For additional information on net operating income, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Net Operating Income, which includes a reconciliation of our GAAP net income(loss) to net operating income for the years ended December 31, 2009, 2008 and 2007.

**Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.**

*The use of the words we, us or our refers to Healthcare Trust of America, Inc. and its subsidiaries, including Healthcare Trust of America Holdings, LP, except where the context otherwise requires.*

The following discussion should be read in conjunction with our consolidated financial statements and notes appearing elsewhere in this Annual Report on Form 10-K. Such consolidated financial statements and information have been prepared to reflect our financial position as of December 31, 2009 and 2008, together with our results of operations and cash flows for the years ended December 31, 2009, 2008 and 2007.

**Forward-Looking Statements**

Historical results and trends should not be taken as indicative of future operations. Our statements contained in this report 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 terms such as expect, project, may, will, should, could, would, intend, plan, anticipate, estimate, believe, continue, predict, potential or terms and other comparable terminology. Our ability to predict results or the actual effect 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 and changes to laws governing the healthcare industry; 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; the availability of properties to acquire; and the availability of financing. 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, including but not limited to the risks described under Part I, Item 1A. Risk Factors, is included herein and in our other filings with the SEC.

**Overview and Background**

Healthcare Trust of America, Inc., a Maryland corporation, was incorporated on April 20, 2006. We were initially capitalized on April 28, 2006, and 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 quality commercial office properties and other real estate related assets. However, we do not 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 qualified and elected to be taxed as a 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 initial 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 the DRIP, at $9.50 per share, aggregating up to $2,200,000,000. The initial offering will expire no later than March 19, 2010. As of December 31, 2009, we had received and accepted subscriptions for 136,958,458 shares of our common stock, or $1,368,087,210, 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 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.

As of December 31, 2009, we had made 53 geographically diverse acquisitions, 41 of which are medical office properties, seven of which are healthcare-related facilities, three of which are quality commercial office properties, and two of which are other real estate-related assets, comprising 179 buildings with 7,407,000 square feet of GLA, for an aggregate purchase price of $1,460,311,000, in 21 states. We seek to invest in a diversified portfolio of real estate and other real estate related assets, focusing primarily on investments that produce recurring income. Our real estate investments focus on medical office buildings and healthcare-related facilities. We have also invested to a limited extent in quality commercial office buildings and other real estate related assets. We seek to maximize long-term stockholder value by generating sustainable growth in cash flow and portfolio value. In order to achieve these objectives, we may invest using a number of investment structures which may include direct acquisitions, joint ventures, leveraged investments, issuing securities for property and direct and indirect investments in real estate.

**Market Outlook**

Macro-economic disruptions have broadly impacted the economy and have caused an imbalance between buyers and sellers of real estate assets, including medical office buildings and other healthcare-related real estate assets.

*Overview.* Turmoil in the credit markets, an unfavorable economic environment and more restrictive financing conditions has led to increased volatility and the loss of value in the real estate markets and the U.S. economy. Many economists believe that the U.S. has entered into a deep recession and are predicting continued deterioration of economic conditions. There has been a significant increase in unemployment across the nation and many economists expect increased vacancy rates at commercial properties in the near term future. The prolonged continuation of these unfavorable conditions will likely materially and adversely impact the availability of credit to commercial and residential borrowers and businesses and could further damage domestic and global economies.

*Adverse Impacts.* Continued turmoil in the financial markets has the potential to materially adversely affect (i) the value of our properties, (ii) the debt capital available for future investments in commercial properties, (iii) the business and operations of our tenants and their ability to pay rent and other monies due to us, (iv) the ability of prospective tenants to enter into new leases or current tenants to renew their leases, and (v) our ability to make payments on or refinance existing debt. Securitized commercial mortgage lenders have dramatically increased underwriting standards and decreased allowable loan-to-value ratios. Accordingly, there is a significant decrease in available debt capital. The turmoil in the credit markets has caused investors of mortgage backed securities to demand higher risk premiums. As a result, lenders have increased the cost of obtaining debt financing. In light of these challenging economic conditions, we may not be able to refinance our existing debt or secure new debt financing on favorable terms.

*Government Response.* In response to current financial and economic conditions, governmental entities and financial regulators have instituted various programs, mechanisms and regulations in an effort to stabilize the credit markets and assist troubled financial institutions and borrowers. It is uncertain what effects these various programs, mechanisms and regulations will have on the credit and real estate markets and the U.S. economy in general. Furthermore, there may be additional governmental restrictions imposed on the financial markets as a result of the continued turmoil in the financial sector. Given the uncertainty of this rapidly changing regulatory environment and the unknown impact of current and potential future financial regulations and programs, we may be unable to successfully implement our current investment strategies, which could have a material impact on our operating results and financial condition. If the turmoil in the debt market continues, we may pursue new investment strategies to effectively manage and increase our portfolio. This may include targeting acquisition opportunities that require us to use little or no debt financing.

*Asset Values and Opportunity.* The state of the credit markets and faltering economy could result in lower occupancy, lower rental rates and continued price or value decreases for commercial real estate assets. Although this may decrease the value of our current portfolio and the collateral securing any loan investments we may make, this may also benefit us by presenting future acquisition opportunities at depressed prices. We anticipated that these tough economic conditions would create opportunities for our company to acquire such assets at higher capitalization rates, as the real estate market adjusted downward. In the fourth quarter of 2008 and the first half of 2009, we opted not to proceed with certain acquisitions which we determined merited re-pricing. We renegotiated other deals to lower pricing points. In December 2009, we closed approximately $253,000,000 of acquisitions and as of December 31, 2009, we had cash on hand of approximately $219,001,000, which we intend to use to acquire assets that are priced at levels consistent with today s economy. We believe that during this turbulent economic cycle, our cash on hand will provide our company with opportunities to acquire medical office buildings and other healthcare-related real estate assets at favorable pricing.

## Critical Accounting Policies

We believe that our critical accounting policies are those that require significant judgments and estimates such as those related to revenue recognition, allowance for uncollectible accounts, capitalization of expenditures, depreciation of assets, impairment of real estate, properties held for sale, purchase price allocation, and qualification as a REIT. These estimates are made and evaluated on an on-going basis using information that is currently available as well as various other assumptions believed to be reasonable under the circumstances.

### *Use of Estimates*

The preparation of our consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These estimates are made and evaluated on an on-going basis using information that is currently available as well as various other assumptions believed to be reasonable under the circumstances. Actual results could differ from those estimates, perhaps in material adverse ways, and those estimates could be different under different assumptions or conditions.

### *Revenue Recognition, Tenant Receivables and Allowance for Uncollectible Accounts*

In accordance with ASC 840, *Leases* ( ASC 840 ), formerly Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, minimum annual rental revenue is recognized on a straight-line basis over the term of the related lease (including rent holidays). Differences between rental income recognized and amounts contractually due under the lease agreements are credited or charged, as applicable, to rent receivable. Tenant reimbursement revenue, which is comprised of additional amounts recoverable from tenants for common area maintenance expenses and certain other recoverable expenses, is recognized as revenue in the period in which the related expenses are incurred. Tenant reimbursements are recognized and presented in accordance with ASC 605-45, *Revenue Principal Agent Considerations*, which codified Emerging Issues Task Force, or EITF, Issue No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*. This guidance requires that these reimbursements be recorded on a gross basis, as we are generally the primary obligor with respect to purchasing goods and services from third-party suppliers, have discretion in selecting the supplier and have credit risk. We recognize lease termination fees if there is a signed termination letter agreement, all of the conditions of the agreement have been met, and the tenant is no longer occupying the property.

Tenant receivables and unbilled deferred rent receivables are carried net of the allowances for uncollectible current tenant receivables and unbilled deferred rent. An allowance is maintained for estimated losses resulting from the inability of certain tenants to meet the contractual obligations under their lease agreements. We also maintain an allowance for deferred rent receivables arising from the straight-lining of rents. Such allowance is charged to bad debt expense which is included in general and administrative on our accompanying consolidated statement of operations. Our determination of the adequacy of these allowances is based primarily upon evaluations of historical loss experience, the tenant s financial condition, security deposits, letters of credit, lease guarantees and current economic conditions and other relevant factors.

***Capitalization of Expenditures and Depreciation of Assets***

The cost of operating properties includes the cost of land and completed buildings and related improvements. Expenditures that increase the service life of properties are capitalized and the cost of maintenance and repairs is charged to expense as incurred. The cost of building and improvements is depreciated on a straight-line basis over the estimated useful lives of 39 years and the shorter of the lease term or useful life, ranging from one month to 241 months, respectively. Furniture, fixtures and equipment is depreciated over five years. When depreciable property is retired, replaced or disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss reflected in operations.

***Investments in Real Estate and Real Estate Related Assets***

Our properties are carried at the lower of historical cost less accumulated depreciation or fair value less costs to sell. We assess the impairment of a real estate asset when events or changes in circumstances indicate its carrying amount may not be recoverable. Indicators we consider important and that we believe could trigger an impairment review include the following:

- significant negative industry or economic trends;

- a significant underperformance relative to historical or projected future operating results; and

- a significant change in the manner in which the asset is used.

In the event that the carrying amount of a property exceeds the sum of the undiscounted cash flows (excluding interest) that would be expected to result from the use and eventual disposition of the property, we would recognize an impairment loss to the extent the carrying amount exceeds the estimated fair value of the property. The estimation of expected future net cash flows is inherently uncertain and relies on subjective assumptions dependent upon future and current market conditions and events that affect the ultimate value of the property. It will require us to make assumptions related to future rental rates, tenant allowances, operating expenditures, property taxes, capital improvements, occupancy levels, and the estimated proceeds generated from the future sale of the property.

Also, we evaluate the carrying values of mortgage loans receivable on an individual basis. Management periodically evaluates the realizability of future cash flows from the mortgage loan receivable when events or circumstances, such as the non-receipt of principal and interest payments and/or significant deterioration of the financial condition of the borrower, indicate that the carrying amount of the mortgage loan receivable may not be recoverable. An impairment charge is recognized in current period earnings and is calculated as the difference between the carrying amount of the mortgage loan receivable and the discounted cash flows expected to be received, or if foreclosure is probable, the fair value of the collateral securing the mortgage.

***Purchase Price Allocation***

In accordance with ASC 805, *Business Combinations* ( ASC 805 ), formerly Statement of Financial Accounting Standards No. 141R, *Business Combinations*, we, with assistance from independent valuation specialists, allocate the purchase price of acquired properties to tangible and identified intangible assets and liabilities based on their respective fair values. The allocation to tangible assets (building and land) is based upon our determination of the value of the property as if it were to be replaced and vacant using discounted cash flow models similar to those used by independent appraisers. Factors considered by us include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. Additionally, the purchase price of the applicable property is allocated to the above or below market value of in place leases, the value of in place leases, tenant relationships and above or below market debt assumed.

The value allocable to the above or below market component of the acquired in place leases is determined based upon the present value (using a discount rate which reflects the risks associated with the acquired leases) of the difference between: (1) the contractual amounts to be paid pursuant to the lease over its remaining term and (2) management s estimate of the amounts that would be paid using fair market rates over the remaining term of the lease including any bargain renewal periods, with respect to a below market lease. The amounts allocated to above market leases are included in identified intangible assets, net in our accompanying consolidated balance sheets and amortized to rental income over the remaining non-cancelable lease term of the acquired leases with each property. The amounts allocated to below market lease values are included in identified intangible liabilities, net in our accompanying consolidated balance sheets and amortized to rental income over the remaining non-cancelable lease term plus any below market renewal options of the acquired leases with each property.

The total amount of other intangible assets acquired is further allocated to in place lease costs and the value of tenant relationships based on management s evaluation of the specific characteristics of each tenant s lease and our overall relationship with that respective tenant. Characteristics considered by us in allocating these values include the nature and extent of the credit quality and expectations of lease renewals, among other factors. The amounts allocated to in place lease costs are included in identified intangible assets, net in our accompanying consolidated balance sheets and will be amortized over the average remaining non-cancelable lease term of the acquired leases with each property. The amounts allocated to the value of tenant relationships are included in identified intangible assets, net in our accompanying consolidated balance sheets and are amortized over the average remaining non-cancelable lease term of the acquired leases plus a market lease term.

The value allocable to above or below market debt is determined based upon the present value of the difference between the cash flow stream of the assumed mortgage and the cash flow stream of a market rate mortgage. The amounts allocated to above or below market debt are included in mortgage loans payable, net on our accompanying consolidated balance sheets and amortized to interest expense over the remaining term of the assumed mortgage.

These allocations are subject to change based on information received within one year of the purchase related to one or more events identified at the time of purchase which confirm the value of an asset or liability received in an acquisition of property.

***Qualification as a REIT***

We qualified and elected to be taxed as a REIT under Sections 856 through 860 of the Code for federal income tax purposes beginning with our tax year ended December 31, 2007 and we intend to continue to be taxed as a REIT. To continue to qualify as a REIT for federal income tax purposes, we must meet certain organizational and operational requirements, including a requirement to pay distributions to our stockholders of at least 90.0% of our annual taxable income. As a REIT, we generally are not subject to federal income tax on net income that we distribute to our stockholders.

If we fail to qualify as a REIT in any taxable year, we will then be subject to federal income taxes on our taxable income and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year during which qualification is lost unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could have a material adverse effect on our results of operations and net cash available for distribution to our stockholders.

***Recently Issued Accounting Pronouncements***

See Note 2, Summary of Significant Accounting Policies, to our accompanying consolidated financial statements, for a discussion of recently issued accounting pronouncements.

Table of Contents

### Acquisitions in 2009, 2008 and 2007

See Note 3, Real Estate Investments and Note 22, Subsequent Events, to our accompanying consolidated financial statements, for a discussion of our acquisitions.

### Factors Which May Influence Results of Operations

We are not aware of any material trends or uncertainties, other than national economic conditions affecting real estate generally and those risks listed in Part I, Item 1A. Risk Factors, that may reasonably be expected to have a material impact, favorable or unfavorable, on revenues or income from the acquisition, management and operation of properties.

#### *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 and 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 from the sale of shares of our common stock, 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, some 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 December 31, 2009, our consolidated properties were approximately 91% occupied. Our leasing strategy for 2010 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 2010, 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. 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.

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.

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, 2009 and continue to comply with such regulations.

Table of Contents

Commencing with our Annual Report on Form 10-K for the year ending December 31, 2010, we will also be required to provide an auditor attestation report regarding management s assessment.

## Results of Operations

***Comparison of the Years Ended December 31, 2009, 2008, and 2007***

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

Except where otherwise noted, the change in our results of operations is primarily due to our 53 geographically diverse acquisitions, 42 geographically diverse acquisitions and 20 geographically diverse acquisitions as of December 31, 2009, 2008 and 2007, respectively.

*Rental Income*

For the years ended December 31, 2009, 2008 and 2007, rental income was $126,333,000, $80,415,000 and $17,626,000, respectively. For the year ended December 31, 2009, rental income was primarily comprised of base rent of $95,950,000 and expense recoveries of $24,071,000. For the year ended December 31, 2008, rental income was primarily comprised of base rent of $60,996,000 and expense recoveries of $15,367,000. For the year ended December 31, 2007, rental income was primarily comprised of base rent of $13,785,000 and expense recoveries of $3,075,000. The increase in rental income is due to the increase in the number of properties discussed above.

The aggregate occupancy for our properties was approximately 91% as of December 31, 2009 and December 31, 2008 and 89% as of December 31, 2007.

*Rental Expenses*

For the years ended December 31, 2009, 2008 and 2007, rental expenses were $45,024,000, $28,174,000 and $6,037,000, respectively. Rental expenses consisted of the following for the periods then ended:

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| Real estate taxes | $ 14,571,000 | $ 9,632,000 | $ 1,689,000 |
| Utilities | 9,771,000 | 5,774,000 | 1,534,000 |
| Building maintenance | 9,099,000 | 5,395,000 | 1,321,000 |
| Property Management fees | 3,042,000 | 2,372,000 | 591,000 |
| Administration | 3,273,000 | 1,988,000 | 160,000 |
| Grounds maintenance | 2,058,000 | 1,320,000 | 348,000 |
| Non-recoverable operating expenses | 2,061,000 | 877,000 | 113,000 |
| Insurance | 982,000 | 679,000 | 210,000 |
| Other | 167,000 | 137,000 | 71,000 |
| Total rental expenses | $ 45,024 ,000 | $ 28,174,000 | $ 6,037,000 |

*General and Administrative Costs*

For the years ended December 31, 2009, 2008 and 2007, general and administrative costs were $12,285,000, $3,261,000, and $1,335,000, respectively. General and administrative costs consisted of the following for the periods then ended:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Professional and legal fees | 2,572,000(a) | 1,398,000(a) | 620,000(a) |
| Bad debt expense | 966,000 | 442,000 | 11,000 |
| Salaries | 3,963,000(b) | 124,000(b) | (b) |
| Directors and officers insurance premiums | 507,000(c) | 279,000(c) | 242,000(c) |
| Directors fees | 538,000(d) | 264,000(d) | 249,000(d) |
| Postage | 453,000(e) | 138,000(e) | 24,000(e) |
| Restricted stock compensation | 816,000(f) | 130,000(f) | 96,000(f) |
| Investor services | 673,000(g) | 130,000(g) | 33,000(g) |
| Bank charges | 248,000(h) | 114,000(h) | 4,000(h) |
| Corporate office overhead | 887,000(i) | (i) | (i) |
| Franchise and State Taxes | 337,000 | 46,000 | 38,000 |
| Other | 325,000 | 196,000 | 18,000 |
| Total general and administrative | $ 12,285,000 | $ 3,261,000 | $ 1,335,000 |

The increase in general and administrative of $9,024,000 for the year ended December 31, 2009, as compared to the year ended December 31, 2008 and the increase of $1,926,000 for the year ended December 31, 2008, as compared to the year ended December 31, 2007, was due to the following:

(a) The increase in professional and legal fees for the year ended December 31, 2009 of $1,174,000 as compared to the year ended December 31, 2008 was due to increased fees in connection with outside consulting and legal costs. Of these fees, $1,075,000 is one-time, non-recurring costs for among other things, our transition to self-management. The increase in professional and legal fees of $778,000 for the year ended December 31, 2008, as compared to the year ended December 31, 2007 was primarily due to increased professional and legal fees of approximately $403,000 in connection with outside consulting in pursuit of our transition to self-management, increased audit fees of $254,000 related to our Quarterly Reports on Form 10-Q and Annual Report on Form 10-K due to our increase in size and consulting fees of approximately $90,000 paid to Mr. Peters for the period from August 1, 2008 through October 31, 2008, in accordance with the consulting agreement dated August 28, 2008.

(b) The increase in salaries and benefits for the year ended December 31, 2009 of $3,839,000 as compared to the year ended December 31, 2008 was due to an increase in the number of employees being hired for the transition to self-management during the year ended December 31, 2009. We had one employee beginning November 14, 2008, Mr. Peters, during the year ended December 31, 2008, and no employees for the year ended 2007.

(c) The increase in directors and officers insurance premiums of $228,000 for the year ended December 31, 2009, as compared to the year ended December 31, 2008 was due to increased insurance premiums due to an increase in coverage. The increase in directors and officers insurance premiums of $37,000 for the year ended December 31, 2008, as compared to the year ended December 31, 2007 was due to increased insurance premiums in the fourth quarter of 2008 due to an increase in coverage.

(d) The increase in directors fees for the year ended December 31, 2009 of $274,000 as compared to the year ended December 31, 2008 was due to an increased number of meetings and increased fees for these meetings as a result of amending the 2006 Independent Directors Compensation Plan on December 30, 2008 which became effective as of January 1, 2009. These amendments increased the annual retainer for each director from $36,000 to $50,000, added an additional retainer for each committee chairman of $7,500, increased the meeting fee from $1,000 to $1,500, and increased the committee meeting fee from $500 to $1,000. The increase in directors fees of $15,000 for the year ended December 31, 2008, as compared to the year ended December 31, 2007 was due to a full year of directors fees expensed in 2008 for five directors as compared to four directors for four months and five directors for eight months in 2007.

(e) The increase in postage of $314,000 for the year ended December 31, 2009, as compared to the year ended December 31, 2008 and the increase in postage of $114,000 for the year ended December 31, 2008, as compared to December 31, 2007, was primarily due to increased proxy, distributions and investor statement mailings. We had approximately 36,000, 19,000 and 6,000 invested for the years ended December 31, 2009, 2008 and 2007.

(f) The increase in restricted stock compensation of $686,000 for the year ended December 31, 2009, as compared to the year ended December 31, 2008 was due an increased number of restricted stock grants awarded to the officers and directors for the year ended December 31, 2009 of 165,000 shares as compared to 62,500 shares for the year ended December 31, 2008. Additionally, the amortization of grants previously awarded during 2008 and 2007 were amortized for an entire year during 2009, as compared to partial year of amortization for those grants issued during 2008. The increase in restricted stock compensation of $34,000 for the year ended December 31, 2008, as compared to the year ended December 31, 2007 was due an increased number of restricted stock grants awarded to the officers and directors for the year ended December 31, 2008 of 62,500 shares as compared to 17,500 shares for the year ended December 31, 2007. Additionally, the amortization of grants previously awarded during 2007 were amortized for an entire year during 2008, as compared to partial year of amortization for those grants issued during 2007.

(g) The increase in investor services for the year ended December 31, 2009 of $544,000, as compared to December 31, 2008, was due to the increase in the number of stockholders as well as one-time costs of $250,000 associated with the transition to DST Systems, Inc. as our transfer agent. The increase in investor services of $97,000 for the year ended December 31, 2008, as compared to the year ended December 31, 2007 was primarily due to an increased number of stockholders. We had approximately 36,000, 19,000 and 6,000 investors for the years ended December 31, 2009, 2008 and 2007, respectively.

(h) The increase in bank charges of $134,000 and for the year ended December 31, 2009, as compared to the year ended December 31, 2008 and the increase in bank charges of $110,000 for the year ended December 31, 2008, as compared to the year ended December 31, 2007, was primarily due to having an increase in banking activity resulting from an increase in the number of assets.

(i) The increase corporate office related overhead of $887,000 for the year ended December 31, 2009, as compared to the year ended December 31, 2008 is primarily the result of the establishment of our corporate offices in Scottsdale, Arizona resulting from the transition to self-management.

*Asset Management Fees*

For the years ended December 31, 2009, 2008 and 2007, asset management fees were $3,783,000, $6,177,000 and $1,590,000, respectively. The decrease in assets management fees of $2,394,000 for the year ended December 31, 2009, as compared to the year ended December 31, 2008, is primarily a result of the reduction in this fee from 1.0% to 0.5% paid to our former advisor pursuant to the amended advisory agreement and the expiration of such agreement on September 20, 2009, which is partially offset by an increase of $1,531,000 resulting from the increase in the number of properties and other real estate related assets discussed above. After September 20, 2009, we no longer pay asset management fees to our former advisor and therefore, these costs will not recur going forward. The increase of $4,587,000 for the year ended December 31, 2008, as compared to the year ended December 31, 2007 is primarily the result of the increase in the number of properties and other real estate related assets discussed above.

*Acquisition Expenses*

For the years ended December 31, 2009, 2008 and 2007, acquisition expenses were $15,997,000, $122,000 and $372,000, respectively. Included in these fees are acquisition-related audit fees of $79,000,

$122,000 and $372,000 for the years ended December 31, 2009, 2008 and 2007, respectively. Acquisition-related expenses were expensed as incurred for acquisitions for the year ended December 31, 2009 in accordance with ASC 805, which codified Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations*. Acquisition-related expenses for the years ended December 31, 2008 and 2007 were capitalized and recorded as part of the purchase price allocations. Additionally, the decrease in acquisition-related audit fees of $43,000 for the year ended December 31, 2009, as compared to the year ended December 31, 2008 and the decrease of $250,000 for the year ended December 31, 2008, as compared to the year ended December 31, 2007 is primarily a result of fewer acquisitions that were subject to the provisions of Article 3-14 of Regulation S-X, which resulted in fewer acquisition-related audits.

*Depreciation and Amortization*

For the years ended December 31, 2009, 2008 and 2007, depreciation and amortization was $53,595,000, $37,398,000 and $9,790,000, respectively. Depreciation and amortization consisted of the following for the periods then ended:

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| Depreciation of properties | $ 32,456,000 | $ 20,484,000 | $ 4,616,000 |
| Amortization of identified intangible assets | 20,777,000 | 16,818,000 | 5,166,000 |
| Amortization of lease commissions | 331,000 | 93,000 | 7,000 |
| Other | 31,000 | 3,000 | 1,000 |
| Total depreciation and amortization | $ 53,595,000 | $ 37,398,000 | $ 9,790,000 |

*Interest Expense*

For the years ended December 31, 2009, 2008 and 2007, interest expense was $23,824,000, $34,164,000 and $6,400,000, respectively. Interest expense consisted of the following for the periods then ended:

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| Interest expense on our mortgage loans payable | $ 27,036,000 | $ 18,492,000 | $ 4,145,000 |
| Interest expense on our secured revolving line of credit with LaSalle and KeyBank | | 1,340,000 | 600,000 |
| (Gain) loss on derivative financial instruments | (5,523,000) | 12,821,000 | 1,377,000 |
| Amortization of deferred financing fees associated with our mortgage loans payable | 1,504,000 | 914,000 | 90,000 |
| Amortization of deferred financing fees associated with our line of credit | 381,000 | 377,000 | 80,000 |
| Amortization of debt discount | 276,000 | 110,000 | 7,000 |
| Unused line of credit fees | 150,000 | 108,000 | 17,000 |
| Interest expense on our unsecured note payable to affiliate | | 2,000 | 84,000 |
| Total interest expense | $ 23,824,000 | $ 34,164,000 | $ 6,400,000 |

The decrease in interest expense for the year ended December 31, 2009 as compared to the year ended December 31, 2008 was due to the non-cash gain on mark to market adjustments we made on our interest rate swaps. We use interest rate swaps in order to minimize the impact to us of fluctuations in interest rates. To achieve our objectives, we borrow at fixed rates and variable rates. We also enter into derivative financial instruments such as interest rate swaps in order to mitigate our interest rate risk on a related financial instrument. We do not enter into derivative or interest rate transactions for speculative purposes. Derivatives not designated as hedges are not speculative and are used to manage our exposure to interest rate movements. This decrease was partially offset by an increase in our interest expense due to an increase in our mortgage loans payable to $540,028,000 as of December 31, 2009 from $460,762,000 as of December 31, 2008 and a full year of interest expense on new loans incurred in 2008. The increase in interest expense for the year ended December 31, 2008 as compared to the year ended December 31, 2007 was primarily due to an increase in our mortgage loans payable to $460,762,000 as of December 31, 2008 from $185,801,000 as of December 31, 2007.

*Interest and Dividend Income*

For the years ended December 31, 2009, 2008 and 2007, interest and dividend income was $249,000, $469,000 and $224,000, respectively. For the years ended December 31, 2009, 2008 and 2007, interest and dividend income was related primarily to interest earned on our cash investments. The decrease in our interest and dividend income in 2009 was due primarily to the use of cash investments to offset service fees as well as lower interest rates through the year. This decrease was partially offset by higher cash balances in 2009 and 2008 as compared to the previous year.

**Liquidity and Capital Resources**

We are dependent upon the net proceeds from our initial offering and proposed follow-on offering operating cash flows from properties to conduct our activities. Our ability to raise funds through our initial offering and proposed follow-on offering is dependent on general economic conditions, general market conditions for REITs and our operating performance. The capital required to purchase real estate and other real estate related assets is obtained from our offerings and from any indebtedness that we may incur.

Our principal demands for funds continue to be for acquisitions of real estate and other real estate related assets, to pay operating expenses and interest on our outstanding indebtedness and to make distributions to our stockholders.

Generally, cash needs for items other than acquisitions of real estate and other real estate related assets continue to be met from operations, borrowing, and the net proceeds of our offerings. 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.

We evaluate potential additional investments and engage in negotiations with real estate sellers, developers, brokers, investment managers, and lenders. Until we invest the majority of the proceeds of our offerings in properties and other real estate related assets, 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 real estate and other real estate related assets. The number of properties we may acquire and other investments we will make will depend upon the number of our shares of our common stock sold in our initial offering and proposed follow-on 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 real estate and real estate related assets, 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, we prepare 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 offerings, 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 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.

Table of Contents

### *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. We may also pay distributions from cash from capital transactions, including, without limitation, the sale of one or more of our properties.

As of December 31, 2009, we estimate that our expenditures for capital improvements will require up to approximately $30,166,000 within the next 12 months. As of December 31, 2009, we had $14,065,000 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. As of December 31, 2009, we had cash and cash equivalents of approximately $219,001,000. Additionally, as of December 31, 2009, we had unencumbered properties with a gross book value of approximately $666,450,000 that may be used as collateral to secure additional financing in future periods or as additional collateral to facilitate the refinancing of current mortgage debt as it becomes due.

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 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 years ended December 31, 2009, 2008 and 2007, were $21,001,000, $20,677,000 and $7,005,000, respectively. Cash flows from operations was reduced by $15,997,000, $0 and $0 for the years ended December 31, 2009, 2008 and 2007 for acquisition-related expenses. Acquisition-related expenses were previously capitalized as a part of the purchase price allocations and have historically been included in cash flows from investing activities. Excluding such acquisition-related expenses, the comparable cash flows from operations for the year ended December 31, 2009 would have been $36,998,000. For the year ended December 31, 2009, cash flows provided by operating activities related primarily to operations from our 53 properties and two real estate related assets. For the year ended December 31, 2008, cash flows provided by operating activities related primarily to operations from our 42 properties and one real estate related asset. For the year ended December 31, 2007, cash flows provided by operating activities related primarily to operations from our 20 properties. We anticipate cash flows from operating activities will increase as we purchase more properties.

Cash flows used in investing activities for the years ended December 31, 2009, 2008 and 2007, were $454,855,000, $526,475,000 and $385,440,000, respectively. For the year ended December 31, 2009, cash flows used in investing activities related primarily to the acquisition of our 13 properties and one real estate related asset in the amount of $402,268,000. For the year ended December 31, 2008, cash flows used in investing activities related primarily to the acquisition of our 21 properties and one real estate related asset in the amount of $503,638,000. For the year ended December 31, 2007, cash flows used in investing activities related primarily to the acquisition of our 20 properties in the amount of $380,398,000. Cash flows used in investing activities is heavily dependent upon the deployment of our offering proceeds in properties and real estate related assets.

Cash flows provided by financing activities for the years ended December 31, 2009, 2008 and 2007, were $524,524,000, $628,662,000 and $383,700,000, respectively. For the year ended December 31, 2009, cash flows provided by financing activities related primarily to funds raised from investors in the amount of $622,652,000 and borrowings on mortgage loans payable of $37,696,000, the payment of offering costs of

Table of Contents

$68,360,000, distributions of $39,500,000 and principal repayments of $12,600,000 on mortgage loans payable. Additional cash outflows related to deferred financing costs of $415,000 in connection with the debt financing for our acquisitions. For the year ended December 31, 2008, cash flows provided by financing activities related primarily to funds raised from investors in the amount of $528,816,000 and borrowings on mortgage loans payable of $227,695,000, partially offset by net payments under our secured revolving line of credit with LaSalle Bank National Association, or LaSalle, and KeyBank National Association, or KeyBank, of $51,801,000, the payment of offering costs of $54,339,000, distributions of $14,943,000 and principal repayments of $1,832,000 on mortgage loans payable. Additional cash outflows related to deferred financing costs of $3,688,000 in connection with the debt financing for our acquisitions. For the year ended December 31, 2007, cash flows provided by financing activities related primarily to funds raised from investors in the amount of $210,937,000, borrowings on mortgage loans payable of $148,906,000 and net borrowings under our secured revolving line of credit with LaSalle and KeyBank of $51,801,000, partially offset by principal repayments of $151,000 on mortgage loans payable, offering costs of $22,009,000 and distributions of $3,323,000. Additional cash outflows related to debt financing costs of $2,496,000 in connection with the debt financing for our acquisitions.

***Distributions***

The income tax treatment for distributions reportable for the years ended December 31, 2009, 2008 and 2007 was as follows:

| | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2007 | |
| Ordinary income | $ 2,836,000 | 3.6% | $ 5,879,000 | 21.0% | $ 915,000 | 15.3% |
| Capital gain | | | | | | |
| Return of capital | 75,223,000 | 96.4 | 22,163,000 | 79.0 | 5,081,000 | 84.7 |
| Total | $ 78,059,000 | 100% | $ 28,042,000 | 100% | $ 5,996,000 | 100% |

See Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Distributions, for a further discussion of our distributions.

**Capital Resources**

***Financing***

We anticipate that our aggregate borrowings, both secured and unsecured, will not exceed 60.0% of all of our properties and other real estate related assets combined fair market values, as determined at the end of each calendar year. 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 December 31, 2009, our aggregate borrowings were 38.5% of all of our properties and other real estate related assets combined fair market values. Of the $118,847,000 of mortgage notes payable maturing in 2010, $64,596,000 have two one-year extensions available and $54,251,000 have a one-year extension available. Of the $202,138,000 of mortgage notes payable maturing in 2011, $181,678,000 have two one-year extensions available. We anticipate utilizing the extensions available to us.

Our charter precludes us from borrowing in excess of 300% 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. For purposes of this determination, net assets are our total assets, other than intangibles, calculated at cost before deducting depreciation, bad debt and other similar non-cash reserves, less total liabilities and computed at least quarterly on a consistently-applied basis. Generally, the preceding calculation is expected to approximate 75.0% of the sum of the aggregate cost of our real estate and real estate related assets before depreciation, amortization, bad debt and other similar non-cash reserves. As of March 15, 2010 and December 31, 2009, our leverage did not exceed 300% of the value of our net assets.

*Mortgage Loans Payable, Net*

See Note 7, Mortgage Loans Payable, Net and Unsecured Notes Payable to Affiliate Mortgage Loans payable, Net, to our accompanying consolidated financial statements, for a further discussion of our mortgage loans payable, net.

*Unsecured Notes Payable to Affiliate*

See Note 7, Mortgage Loans Payable, Net and Unsecured Notes Payable to Affiliate Unsecured Notes Payable to Affiliate, to our accompanying consolidated financial statements, for a further discussion of our unsecured Notes Payable to affiliate.

*Line of Credit*

See Note 9, Line of Credit, to our accompanying consolidated financial statements, for a further discussion of our line of credit.

***REIT Requirements***

In order remain qualified as a REIT for federal income tax purposes, we are required to make distributions to our stockholders of at least 90.0% of REIT taxable income. In the event that there is a shortfall in net cash available due to factors including, without limitation, the timing of such distributions or the timing of the collections of receivables, we may seek to obtain capital to pay distributions by means of secured debt financing through one or more third parties. We may also pay distributions from cash from capital transactions including, without limitation, the sale of one or more of our properties.

**Commitments and Contingencies**

See Note 11, Commitments and Contingencies, to our accompanying consolidated financial statements, for a further discussion of our commitments and contingencies.

**Debt Service Requirements**

One of our principal liquidity needs is the payment of principal and interest on outstanding indebtedness. As of December 31, 2009, we had fixed and variable rate mortgage loans payable in the principal amount of $540,028,000, net of a discount of $2,434,000, outstanding secured by our properties. We are required by the terms of the applicable loan documents to meet certain financial covenants, such as minimum net worth and liquidity amount, and reporting requirements. As of December 31, 2009, we believe that we were in compliance with all such covenants and requirements on $457,262,000 of our mortgage loans payable and are making appropriate adjustments to ensure ongoing compliance with certain covenants on $85,200,000 of our mortgage loans payable by depositing $22,676,000 into a restricted collateral account. As of December 31, 2009, the balance on our secured, revolving line of credit was zero. We will not borrow from our existing line of credit, and we are currently in the process of replacing this line of credit. One of our lenders has committed to a $35,000,000 line of credit as part of our replacement facility and we have received and are reviewing additional lender participants for such facility.

As of December 31, 2009, the weighted average interest rate on our outstanding debt was 3.94% per annum.

Table of Contents

### Contractual Obligations

The following table provides information with respect to the maturities and scheduled principal repayments of our secured mortgage loan as of December 31, 2009. The table does not reflect any available extension options.

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Less than 1 Year (2010) | 1-3 Years (2011-2012) | 4-5 Years (2013-2014) | More than 5 Years (After 2014) | Total |
| Principal payments fixed rate debt | $ 2,112,000 | $ 13,463,000 | $ 63,859,000 | $ 130,424,000 | $ 209,858,000 |
| Interest payments fixed rate debt | 12,712,000 | 24,669,000 | 21,535,000 | 13,345,000 | 72,261,000 |
| Principal payments variable rate debt | 121,549,000 | 201,138,000 | 1,120,000 | 8,797,000 | 332,604,000 |
| Interest payments variable rate debt (based on rates in effect as of December 31, 2009) | 8,184,000 | 3,913,000 | 373,000 | 14,000 | 12,484,000 |
| Total | $ 144,557,000 | $ 243,183,000 | $ 86,887,000 | $ 152,580,000 | $ 627,207,000 |

The table above does not reflect all available extension options. Of the amounts maturing in 2010 and 2011, $246,274,000 have two one-year extensions available and $54,251,000 have a one-year extension available.

### Off-Balance Sheet Arrangements

As of December 31, 2009 and 2008, we had no off-balance sheet transactions nor do we currently have any such arrangements or obligations.

### Inflation

We are exposed to inflation risk as income from future long-term leases is the primary source of our cash flows from operations. There are provisions in the majority of our tenant leases that protect us from the impact of inflation. These provisions include rent steps, reimbursement billings for operating expense pass-through charges, real estate tax and insurance reimbursements on a per square foot allowance. However, due to the long-term nature of the leases, among other factors, the leases may not re-set frequently enough to cover inflation.

### Funds from Operations and Modified Funds from Operations

Due to certain unique operating characteristics of real estate companies, the National Association of Real Estate Investment Trusts, or NAREIT, an industry trade group, has promulgated a measure known as Funds from Operations, or FFO, which it believes more accurately reflects the operating performance of a REIT such as us. FFO is not equivalent to our net income or loss as determined under GAAP.

We define FFO, a non-GAAP measure, consistent with the standards established by NAREIT. NAREIT defines FFO as net income or loss computed in accordance with GAAP, excluding gains or losses from sales of property but including asset impairment write downs, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect FFO.

The historical accounting convention used for real estate assets requires straight-line depreciation of buildings and improvements, which implies that the value of real estate assets diminishes predictably over time. Since real estate values historically rise and fall with market conditions, presentations of operating results for a REIT, using historical accounting for depreciation, could be less informative. The use of FFO is recommended by the REIT industry as a supplemental performance measure.

Presentation of this information is intended to assist the reader in comparing the operating performance of different REITs, although it should be noted that not all REITs calculate FFO the same way, so comparisons

**Table of Contents**

with other REITs may not be meaningful. Factors that impact FFO include non-cash GAAP income and expenses, one-time transition charges, timing of acquisitions, yields on cash held in accounts, income from portfolio properties and other portfolio assets, interest rates on acquisition financing and operating expenses. Furthermore, FFO is not necessarily indicative of cash flow available to fund cash needs and should not be considered as an alternative to net income, as an indication of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make distributions and should be reviewed in connection with other measurements as an indication of our performance. Our FFO reporting complies with NAREIT s policy described above.

Changes in the accounting and reporting rules under GAAP have prompted a significant increase in the amount of non-operating items included in FFO, as defined. Therefore, we use modified funds from operations, or MFFO, which excludes from FFO one-time transition charges and acquisition expenses, to further evaluate our operating performance. We believe that MFFO with these adjustments, like those already included in FFO, are helpful as a measure of operating performance because it excludes costs that management considers more reflective of investing activities or non-operating changes. We believe that MFFO reflects the overall operating performance of our real estate portfolio, which is not immediately apparent from reported net loss. As such, we believe MFFO, in addition to net loss and cash flows from operating activities, each as defined by GAAP, is a meaningful supplemental performance measure and is useful in understanding how our management evaluates our ongoing operating performance. Management considers the following items in the calculation of MFFO:

*Acquisition expenses:* Prior to 2009, acquisition expenses were capitalized and have historically been added back to FFO over time through depreciation; however, beginning in 2009, acquisition expenses related to business combinations are expensed. These acquisition expenses have been and will continue to be funded from the proceeds of our offerings and not from operations. We believe by excluding expensed acquisition expenses, MFFO provides useful supplemental information that is comparable for our real estate investments.

*One-time transition charges:* FFO includes one-time non-recurring charges related to the cost of our transition to self-management. These items include, but are not limited to, additional legal expenses, system conversion costs, non-recurring employment costs, transitional property management costs and duplicative fees that we were contractually required to pay to our former advisor for asset management and property management during the third quarter after we completed our transition to self-management. Because MFFO excludes one-time costs, management believes MFFO provides useful supplemental information by focusing on the changes in our fundamental operations that will be comparable rather than on one-time, non-recurring costs.

**Table of Contents**

The following is the calculation of FFO and MFFO for the years ended December 31, 2009, 2008 and 2007:

| | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | 2009 Per Share | 2008 | 2008 Per Share | 2007 | 2007 Per Share |
| Net loss | $ (24,773,000) | $ (0.22) | $ (28,409,000) | $ (0.66) | $ (7,674,000) | $ (0.66) |
| Add: | | | | | | |
| Depreciation and amortization consolidated properties | 53,595,000 | 0.47 | 37,398,000 | 0.87 | 9,790,000 | 0.98 |
| Less: | | | | | | |
| Net (income) loss attributable to noncontrolling interest of limited partners | (304,000) | | (39,000) | | 8,000 | |
| Depreciation and amortization related to noncontrolling interests | (204,000) | | (205,000) | | | |
| FFO attributable to controlling interest | $ 28,314,000 | | $ 8,745,000 | | $ 2,124,000 | |
| FFO per share basic and diluted | $ 0.25 | $ 0.25 | $ 0.20 | $ 0.20 | $ 0.21 | $ 0.20 |
| Add: | | | | | | |
| Acquisition expenses | 15,997,000 | 0.14 | | | | |
| One-time transition charges(1) | 3,718,000 | 0.03 | | | | |
| MFFO attributable to controlling interest | $ 48,029,000 | | $ 8,745,000 | | $ 2,124,000 | |
| MFFO per share basic and diluted | $ 0.43 | $ 0.43 | $ 0.21 | $ 0.21 | $ 0.21 | $ 0.21 |
| Weighted average common shares outstanding basic and diluted | 112,819,638 | 112,819,638 | 42,844,603 | 42,844,603 | 9,952,771 | 9,952,771 |

(1) One-time charges relate to the cost of our transition to self-management. These items include, but are not limited to, additional legal expenses, system conversion costs, non-recurring employment costs, transitional property

management costs, and duplicative fees that we were contractually required to pay our former advisor for asset management and property management during the third quarter after we completed our transition to self management.

For the year ended December 31, 2009, MFFO per share has been impacted by the increase in net proceeds realized from our initial offering. For the year ended December 31, 2009, we sold 62,696,000 shares of our common stock, increasing our outstanding shares by 83.1%. The proceeds from this issuance were temporarily invested in short-term cash equivalents until they could be invested in medical office buildings and other healthcare-related facilities at favorable pricing. Due to lower interest rates on cash equivalent investments, interest earnings were minimal. We expect to invest these proceeds in higher-earning medical office buildings or other healthcare-related facility investments consistent with our investment policy to identify high quality investments. We believe this will add value to our stockholders over our longer-term investment horizon, even if this results in less current period earnings. See Note 22 Subsequent Events, to our accompanying condensed consolidated financial statements, for a further discussion of our potential future acquisitions.

Table of Contents

## Net Operating Income

Net operating income is a non-GAAP financial measure that is defined as net income (loss), computed in accordance with GAAP, generated from properties before interest expense, general and administrative expenses, depreciation, amortization, interest and dividend income and minority interests. We believe that net operating income provides an accurate measure of the operating performance of our operating assets because net operating income excludes certain items that are not associated with management of the properties. Additionally, we believe that net operating income is a widely accepted measure of comparative operating performance in the real estate community. However, our use of the term net operating income may not be comparable to that of other real estate companies as they may have different methodologies for computing this amount.

To facilitate understanding of this financial measure, a reconciliation of net loss to net operating income has been provided for the years ended December 31, 2009, 2008 and 2007:

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| Net loss attributable to controlling interest | $ (25,077,000) | $ (28,448,000) | $ (7,666,000) |
| Add: | | | |
| General and administrative | 12,285,000 | 3,261,000 | 1,335,000 |
| Asset management expenses | 3,783,000 | 6,177,000 | 1,590,00 |
| Acquisition expenses | 15,997,000 | 122,000 | 372,000 |
| Depreciation and amortization | 53,595,000 | 37,398,000 | 9,790,000 |
| Interest expense | 23,824,000 | 34,164,000 | 6,400,000 |
| Less: | | | |
| Noncontrolling interest of limited partners | 304,000 | 39,000 | (8,000) |
| Interest and dividend income | (249,000) | (469,000) | (224,000) |
| Net operating income | $ 84,462,000 | $ 52,244,000 | $ 11,589,000 |

## Subsequent Events

See Note 22, Subsequent Events, to our accompanying consolidated financial statements, for a further discussion of our subsequent events.

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. In pursuing our business plan, the primary market risk to which we are exposed is interest rate risk.

We are exposed to the effects of interest rate changes primarily as a result of borrowings used to maintain liquidity and fund expansion and refinancing of our real estate investment portfolio and operations. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings, prepayment penalties and cash flows and to lower overall borrowing costs while taking into account variable interest rate risk. To achieve our objectives, we borrow at fixed rates and variable rates.

We may also enter into derivative financial instruments such as interest rate swaps and caps in order to mitigate our interest rate risk on a related financial instrument. To the extent we do, we are exposed to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, it does not possess credit risk. It is our policy to enter into these transactions with the same party providing the underlying financing. In the alternative, we will seek to minimize the credit risk associated with derivative instruments by entering into transactions with what we believe are high-quality counterparties. We

**Table of Contents**

believe the likelihood of realized losses from counterparty non-performance is remote. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. We manage the market risk associated with interest rate contracts by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. We do not enter into derivative or interest rate transactions for speculative purposes.

We have, and may in the future enter into, derivative instruments for which we have not and may not elect hedge accounting treatment. Because we have not elected to apply hedge accounting treatment to these derivatives, the gains or losses resulting from their mark-to-market at the end of each reporting period are recognized as an increase or decrease in interest expense on our consolidated statements of operations.

Our interest rate risk is monitored using a variety of techniques.

The table below presents, as of December 31, 2009, the principal amounts and weighted average interest rates by year of expected maturity to evaluate the expected cash flows and sensitivity to interest rate changes.

| | Expected Maturity Date | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2010** | **2011** | **2012** | **2013** | **2014** | **Thereafter** | **Total** |
| ate principal nts | $ 2,112,000 | $ 2,622,000 | $ 10,841,000 | $ 16,032,000 | $ 47,827,000 | $ 130,424,000 | $ 209,858 |
| ed e rate on g debt | 5.77% | 5.82% | 5.81% | 5.89% | 6.48% | 5.85% | |
| e rate principal nts | $ 121,549,000 | $ 200,224,000 | $ 914,000 | $ 927,000 | $ 193,000 | $ 8,797,000 | $ 332,604 |
| ed e rate on g debt on effect ber 31, | 2.36% | 2.88% | 1.73% | 1.73% | 1.73% | 1.73% | |

Mortgage loans payable were $542,462,000 ($540,028,000, net of discount) as of December 31, 2009. As of December 31, 2009, we had fixed and variable rate mortgage loans with effective interest rates ranging from 1.58% to 12.75% per annum and a weighted average effective interest rate of 3.94% per annum. We had $209,858,000 ($207,424,000, net of discount) of fixed rate debt, or 38.7% of mortgage loans payable, at a weighted average interest rate of 5.99% per annum and $332,604,000 of variable rate debt, or 61.3% of mortgage loans payable, at a weighted average interest rate of 2.65% per annum.

As of December 31, 2009 the fair value of our fixed rate debt was $200,835,000 and the fair value of our variable rate date was $331,180,000.

As of December 31, 2009, we had fixed rate interest rate swaps or caps on all of our variable mortgage loans, thereby effectively fixing our interest rate on those mortgage loans payable.

As of December 31, 2009, there were no amounts outstanding under our secured revolving line of credit with LaSalle and KeyBank.

In addition to changes in interest rates, the value of our future properties is subject to fluctuations based on changes in local and regional economic conditions and changes in the creditworthiness of tenants, which may affect our ability to refinance our debt if necessary.

**Item 8. Financial Statements and Supplementary Data.**

See the index at Item 15. Exhibits, Financial Statement Schedules.

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

None.

## Item 9A(T). Controls and Procedures.

(a) *Evaluation of disclosure controls and procedures.* We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports pursuant to the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to us, including our Chief Executive Officer and Chief Accounting Officer (our principal financial officer), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and we necessarily were required to apply our judgment in evaluating whether the benefits of the controls and procedures that we adopt outweigh their costs.

As of December 31, 2009, an evaluation was conducted under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Accounting Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, the Chief Executive Officer and the Chief Accounting Officer concluded that our disclosure controls and procedures were effective.

(b) *Management s report on internal control over financial reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Accounting Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation.

Based on our evaluation under the Internal Control-Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2009.

(c) *Changes in internal control over financial reporting.* There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by our independent registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management s report in this Annual Report on Form 10-K.

## Item 9B. Other Information.

None.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance.

The following table and biographical descriptions set forth information with respect to the individuals who are our officers and directors.

| Name | Age | Position | Term of Office |
|---|---|---|---|
| Scott D. Peters | 52 | Chief Executive Officer, President and Chairman of the Board | Since 2006 |
| Kellie S. Pruitt | 44 | Chief Accounting Officer, Secretary and Treasurer | Since 2009 |
| Mark D. Engstrom | 50 | Executive Vice President Acquisitions | Since 2009 |
| W. Bradley Blair, II | 66 | Independent Director | Since 2006 |
| Maurice J. DeWald | 69 | Independent Director | Since 2006 |
| Warren D. Fix | 71 | Independent Director | Since 2006 |
| Larry L. Mathis | 66 | Independent Director | Since 2007 |
| Gary T. Wescombe | 66 | Independent Director | Since 2006 |

There are no family relationships between any directors, executive officers or between any director and executive officer.

*Scott D. Peters* has served as our Chairman of the Board since July 2006, Chief Executive Officer since April 2006 and President since June 2007. He served as the Chief Executive Officer of our former advisor from July 2006 until July 2008. He served as the Executive Vice President of Grubb & Ellis Apartment REIT, Inc. from January 2006 to November 2008 and served as one of its directors from April 2007 to June 2008. He also served as the Chief Executive Officer, President and a director of Grubb & Ellis from December 2007 to July 2008, and as the Chief Executive Officer, President and director of NNN Realty Advisors, a wholly owned subsidiary of Grubb & Ellis, from its formation in September 2006 and as its Chairman of the Board from December 2007 to July 2008. NNN Realty Advisors became a wholly owned subsidiary of Grubb & Ellis upon its merger with Grubb & Ellis in December 2007. Mr. Peters also served as the Chief Executive Officer of Grubb & Ellis Realty Investors from November 2006 to July 2008, having served from September 2004 to October 2006, as the Executive Vice President and Chief Financial Officer. From December 2005 to January 2008, Mr. Peters also served as the Chief Executive Officer and President of G REIT, Inc., having previously served as its Executive Vice President and Chief Financial Officer since September 2004. Mr. Peters also served as the Executive Vice President and Chief Financial Officer of T REIT, Inc. from September 2004 to December 2006. From February 1997 to February 2007, Mr. Peters served as Senior Vice President, Chief Financial Officer and a director of Golf Trust of America, Inc., a publicly traded REIT. Mr. Peters received his B.B.A. degree in Accounting and Finance from Kent State University.

*Kellie S. Pruitt* has served as our Chief Accounting Officer, Secretary and Treasurer and principal accounting officer since January 2009 and our principal financial officer since March 2009. She also served as our Controller for a portion of January 2009. From September 2007 to December 2008, Ms. Pruitt served as the Vice President, Financial Reporting and Compliance, for Fender Musical Instruments Corporation. Prior to joining Fender Musical Instruments Corporation in 2007, Ms. Pruitt served as a senior manager at Deloitte & Touche LLP, from 1995 to 2007, serving both public and privately held companies primarily concentrated in the real estate and consumer business industries.

She graduated from the University of Texas with a B.A. degree in Accounting and is a member of the AICPA. Ms. Pruitt is a Certified Public Accountant licensed in Arizona and Texas.

*Mark D. Engstrom* has served as our Executive Vice President Acquisitions since July 2009. From February 2009 to July 2009, Mr. Engstrom served as our independent consultant providing acquisition and asset management support. Mr. Engstrom has 22 years of experience in organizational leadership, acquisitions, management, asset management, project management, leasing, planning, facilities development, financing, and establishing industry leading real estate and facilities groups. From 2006 through 2009, Mr. Engstrom was the Chief Executive Officer of Insite Medical Properties, a real estate services and investment company. From

2001 through 2005, Mr. Engstrom served as a Manager of Real Estate Services for Hammes Company and created a new business unit within the company which was responsible for providing asset and property management. Mr. Engstrom graduated in 1983 from Michigan State University with a Bachelor of Arts degree in Pre-Law and Public Administration. In 1987 he graduated with a Masters Degree in Hospital and Healthcare Administration from the University of Minnesota.

*W. Bradley Blair, II* has served as an independent director of our company since September 2006. Mr. Blair served as the Chief Executive Officer, President and Chairman of the board of directors of Golf Trust of America, Inc. from the time of its formation and initial public offering in 1997 as a REIT until his resignation and retirement in November 2007. During such term, Mr. Blair managed the acquisition, operation, leasing and disposition of the assets of the portfolio. From 1993 until February 1997, Mr. Blair served as Executive Vice President, Chief Operating Officer and General Counsel for The Legends Group. As an officer of The Legends Group, Mr. Blair was responsible for all aspects of operations, including acquisitions, development and marketing. From 1978 to 1993, Mr. Blair was the managing partner at Blair Conaway Bograd & Martin, P.A., a law firm specializing in real estate, finance, taxation and acquisitions. Currently, Mr. Blair operates the Blair Group consulting practice, which focuses on real estate acquisitions and finance. Mr. Blair earned a B.S. degree in Business from Indiana University in Bloomington, Indiana and his Juris Doctorate. degree from the University of North Carolina School of Law.

*Maurice J. DeWald* has served as an independent director of our company since September 2006. He has served as the Chairman and Chief Executive Officer of Verity Financial Group, Inc., a financial advisory firm, since 1992, where the primary focus has been in both the healthcare and technology sectors. Mr. DeWald also serves as a director of Mizuho Corporate Bank of California and as non-executive Chairman of Integrated Healthcare Holdings, Inc. Mr. DeWald also previously served as a director of Tenet Healthcare Corporation, ARV Assisted Living, Inc. and Quality Systems, Inc. From 1962 to 1991, Mr. DeWald was with the international accounting and auditing firm of KPMG, LLP, where he served at various times as an audit partner, a member of their board of directors as well as the managing partner of Orange County and Los Angeles California offices as well as its Chicago office. Mr. DeWald has served as Chairman and director of both the United Way of Greater Los Angeles and the United Way of Orange County California. Mr. DeWald holds a B.B.A. degree in Accounting and Finance from the University of Notre Dame and is a member of its Mendoza School of Business Advisory Council. Mr. DeWald is a Certified Public Accountant (inactive), and is a member of the California Society of Certified Public Accountants and the American Institute of Certified Public Accountants.

*Warren D. Fix* has served as an independent director of our company since September 2006. He is the Chairman of FDW, LLC, a real estate investment and management firm. Mr. Fix also serves as a director of Clark Investment Group, Clark Equity Capital, First Financial, Inc., First Foundation Bank and Accel Networks. Until November of 2008, when he completed a process of dissolution, he served for five years as the chief executive officer of WCH, Inc., formerly Candlewood Hotel Company, Inc., having served as its Executive Vice President, chief financial officer and Secretary since 1995. During his tenure with Candlewood Hotel Company, Inc., Mr. Fix oversaw the development of a chain of extended-stay hotels, including 117 properties aggregating 13,300 rooms. From July 1994 to October 1995, Mr. Fix was a consultant to Doubletree Hotels, primarily developing debt and equity sources of capital for hotel acquisitions and refinancing. Mr. Fix has been and continues to be a partner in The Contrarian Group, a business management company since December 1992. From 1989 to December 1992, Mr. Fix served as President of The Pacific Company, a real estate investment and a development company. During his tenure at The Pacific Company, Mr. Fix was responsible for the development, acquisition and management of an apartment portfolio comprising in excess of 3,000 units From 1964 to 1989, Mr. Fix held numerous positions, including Chief Financial Officer, within The Irvine Company, a major California-based real estate firm that develops residential property, for-sale housing, apartments, commercial, industrial, retail, hotel and other land related uses. Mr. Fix was one of the initial team of ten professionals hired by The Irvine Company to initiate the development of 125,000 acres of land in Orange County, California. Mr. Fix is a Certified Public Accountant (inactive). He received his B.A. degree from Claremont McKenna

College and is a graduate of the UCLA Executive Management Program, the Stanford Financial Management Program and the UCLA Anderson Corporate Director Program.

Table of Contents

*Larry L. Mathis* has served as an independent director of our company since April 2007. Since 1998 he has served as an executive consultant with D. Peterson & Associates in Houston, Texas, providing counsel to select clients on leadership, management, governance, and strategy and is the author of *The Mathis Maxims, Lessons in Leadership.* For over 35 years, Mr. Mathis has held numerous leadership positions in organizations charged with planning and directing the future of healthcare delivery in the United States. Mr. Mathis is the founding President and Chief Executive Officer of The Methodist Hospital System in Houston, Texas, having served that institution in various executive positions for 27 years, the last 14 years before his retirement in 1997 as CEO. During his extensive career in the healthcare industry, he has served as a member of the board of directors of a number of national, state and local industry and professional organizations, including Chairman of the board of directors of the Texas Hospital Association, the American Hospital Association, and the American College of Healthcare Executives, and has served the federal government as Chairman of the National Advisory Council on Health Care Technology Assessment and as a member of the Medicare Prospective Payment Assessment Commission. From 1997 to 2003, Mr. Mathis was a member of the board of directors and Chairman of the Compensation Committee of Centerpulse, Inc., and from 2004 to present a member of the board and Chairman of the Nominating and Governance Committee of Alexion Pharmaceuticals, Inc., both U.S. publicly traded companies. Mr. Mathis received a B.A. degree in Social Sciences from Pittsburg State University and a M.A. degree in Health Administration from Washington University in St. Louis, Missouri.

*Gary T. Wescombe* has served as an independent director of our company since October 2006. He manages and develops real estate operating properties through American Oak Properties, LLC, where he is a principal. He is also director, Chief Financial Officer and Treasurer of the Arnold and Mabel Beckman Foundation, a nonprofit foundation established for the purpose of supporting scientific research. From October 1999 to December 2001, he was a partner in Warmington Wescombe Realty Partners in Costa Mesa, California, where he focused on real estate investments and financing strategies. Prior to retiring in 1999, Mr. Wescombe was a partner with Ernst & Young, LLP (previously Kenneth Leventhal & Company) from 1970 to 1999. In addition, Mr. Wescombe also served as a director of G REIT, Inc. from December 2001 to January 2008 and has served as chairman of the trustees of G REIT Liquidating Trust since January 2008. Mr. Wescombe received a B.S. degree in Accounting and Finance from California State University and is a member of the American Institute of Certified Public Accountants and California Society of Certified Public Accountants.

**Board Experience**

Our board of directors has diverse and extensive knowledge and expertise in industries that are of particular importance to us, including the real estate and healthcare industries. This knowledge and experience includes acquiring, financing, developing, constructing, leasing, managing and disposing of both institutional and non-institutional commercial real estate. In addition, our board of directors has extensive and broad legal, auditing and accounting experience. Our board of directors has numerous years of hands-on and executive commercial real estate experience drawn from a wide range of disciplines. Each director was nominated to the board of directors on the basis of the unique skills he brings to the board, as well as how such skills collectively enhance our board of directors. On an individual basis:

Our Chairman, Mr. Peters, has 20 years of experience in managing publicly traded real estate investment trusts and brings insight into all aspects of our business due to both his current role and his history with the company. His comprehensive experience and extensive knowledge and understanding of the healthcare and real estate industries has been instrumental in the creation, development and launching of our company, as well as our current investment strategy.

Mr. Blair provides broad real estate and legal experience, having served a variety of companies in advisory, executive and/or director roles for over 35 years, including over 10 years as CEO, president and Chairman of the board of directors of a publicly traded REIT. He also operates a consulting practice which focuses on real estate acquisitions and finance. His diverse background in other business disciplines, coupled with his deep understanding and knowledge of real estate, contributes to the quality guidance and oversight he brings to our board of directors.

Mr. DeWald, based on his 30 year career with the international accounting and auditing firm of KPMG LLP, offers substantial expertise in accounting and finance. Mr. DeWald also has over 15 years of experience as a director of a number of companies in the healthcare, financial, banking and manufacturing sectors.

Mr. Fix offers financial and management expertise, with particular industry knowledge in real estate, hospitality, agriculture and financial services. He has served in various executive and/or director roles in a number of public and private companies in the real estate, financial and technology sectors, for over 40 years.

Mr. Mathis brings extensive experience in the healthcare industry, having held numerous leadership positions in organizations charged with planning and directing the future of healthcare delivery in the United States for over 35 years, including serving as Chairman of the National Advisory Council on Health Care Technology Assessment and as a member of the Medicare Prospective Payment Assessment Commission. He is the founding president and CEO of The Methodist Hospital System in Houston, Texas, and has served as an executive consultant in the healthcare sector for over ten years.

Mr. Wescombe provides expertise in accounting, real estate investments and financing strategies, having served a number of companies in various executive and/or director roles for over 40 years in both the real estate and non-profit sectors, including almost 30 years as a partner with Ernst & Young, LLP. He currently manages and develops real estate operating properties as a principal of a real estate company.

**Committees of Our Board of Directors**

Our board of directors may establish committees it deems appropriate to address specific areas in more depth than may be possible at a full board meeting, provided that the majority of the members of each committee are independent directors. Our board of directors has established an audit committee, a compensation committee, a nominating and corporate governance committee, an investment committee and a risk management committee.

*Audit Committee.* Our audit committee s primary function is to assist the board of directors in fulfilling its oversight responsibilities by reviewing the financial information to be provided to the stockholders and others, the system of internal controls which management has established, and the audit and financial reporting process. The audit committee is responsible for the selection, evaluation and, when necessary, replacement of our independent registered public accounting firm. Under our audit committee charter, the audit committee will always be comprised solely of independent directors. The audit committee is currently comprised of Messrs Blair, DeWald, Fix, Mathis and Wescombe, all of whom are independent directors. Mr. DeWald currently serves as the chairman and has been designated as the audit committee financial expert.

*Compensation Committee.* The primary responsibilities of our compensation committee are to advise the board on compensation policies, establish performance objectives for our executive officers, review and recommend to our board of directors the appropriate level of director compensation and annually review our compensation strategy and assess its effectiveness. Under our compensation committee charter, the compensation committee will always be comprised solely of independent directors. The compensation committee is currently comprised of Messrs. Blair, Fix and Wescombe, all of whom are independent directors. Mr. Wescombe currently serves as the chairman.

*Nominating and Corporate Governance Committee.* The nominating and corporate governance committee s primary purposes are to identify qualified individuals to become board members, to recommend to the board the selection of director nominees for election at the annual meeting of stockholders, to make recommendations regarding the composition of the board of directors and its committees, to assess director independence and board effectiveness, to develop and implement corporate governance guidelines and to oversee our compliance and ethics program. The nominating and corporate governance committee is currently comprised of Messrs. Blair, Fix and Mathis, all of whom are independent directors. Mr. Fix currently serves as the chairman.

Table of Contents

*Investment Committee.* Our investment committee s primary function is to assist the board of directors in reviewing proposed acquisitions presented by our management. The investment committee has the authority to reject but not to approve proposed acquisitions, which must receive the approval of the board of directors. The investment committee is currently comprised of Messrs. Blair, Fix, Peters and Wescombe. Messrs. Blair, Fix and Wescombe are independent directors. Mr. Blair currently serves as the chairman.

*Risk Management Committee.* Our risk management committee s primary function is to assist the board of directors in fulfilling its oversight responsibilities by reviewing, assessing and discussing with our management team, general counsel and auditors: (1) material risks or exposures associated with the conduct of our business; (2) internal risk management systems management has implemented to identity, minimize, monitor or manage such risks or exposures; and (3) management s policies and procedures for risk management. The risk management committee is currently comprised of Messrs. Blair, DeWald and Mathis, all of whom are independent directors. Mr. Mathis currently serves as the chairman.

**2006 Incentive Plan and Independent Directors Compensation Plan**

We have adopted an incentive stock plan, which we use to attract and retain qualified independent directors, employees and consultants providing services to us who are considered essential to our long-term success by offering these individuals an opportunity to participate in our growth through awards in the form of, or based on, our common stock.

The incentive stock plan provides for the granting of awards to participants in the following forms to those independent directors, employees, and consultants selected by the plan administrator for participation in the incentive stock plan:

- options to purchase shares of our common stock, which may be nonstatutory stock options or incentive stock options under the U.S. tax code;
- stock appreciation rights, which give the holder the right to receive the difference between the fair market value per share on the date of exercise over the grant price;
- performance awards, which are payable in cash or stock upon the attainment of specified performance goals;
- restricted stock, which is subject to restrictions on transferability and other restrictions set by the committee;
- restricted stock units, which give the holder the right to receive shares of our common stock, or the equivalent value in cash or other property, in the future;
- deferred stock units, which give the holder the right to receive shares of our common stock, or the equivalent value in cash or other property, at a future time;
- dividend equivalents, which entitle the participant to payments equal to any dividends paid on the shares of our common stock underlying an award; and/or
- other stock based awards in the discretion of the plan administrator, including unrestricted stock grants.

Any such awards will provide for exercise prices, where applicable, that are not less than the fair market value of our common stock on the date of the grant. Any shares issued under the incentive stock plan will be subject to the ownership limits contained in our charter.

Our board of directors or a committee of its independent directors will administer the incentive stock plan, with sole authority to select participants, determine the types of awards to be granted and all of the terms and conditions of the awards, including whether the grant, vesting or settlement of awards may be subject to the attainment of one or more performance goals. No awards will be granted under the plan if the grant, vesting and/or exercise of the awards would jeopardize our status as a REIT under the Code or otherwise violate the ownership and transfer restrictions imposed under our charter.

Table of Contents

The maximum number of shares of our common stock that may be issued upon the exercise or grant of an award under the incentive stock plan is 2,000,000. In the event of a nonreciprocal corporate transaction that causes the per-share value of our common stock to change, such as a stock dividend, stock split, spin-off, rights offering, or large nonrecurring cash dividend, the share authorization limits of the incentive stock plan will be adjusted proportionately.

Unless otherwise provided in an award certificate, upon the death or disability of a participant, or upon a change in control, all of such participant s outstanding awards under the incentive stock plan will become fully vested. The plan will automatically expire on the tenth anniversary of the date on which it is adopted, unless extended or earlier terminated by the board of directors. The board of directors may terminate the plan at any time, but such termination will have no adverse impact on any award that is outstanding at the time of such termination. The board of directors may amend the plan at any time, but any amendment would be subject to stockholder approval if, in the reasonable judgment of the board, stockholder approval would be required by any law, regulation or rule applicable to the plan. No termination or amendment of the plan may, without the written consent of the participant, reduce or diminish the value of an outstanding award determined as if the award had been exercised, vested, cashed in or otherwise settled on the date of such amendment or termination. The board may amend or terminate outstanding awards, but those amendments may require consent of the participant and, unless approved by the stockholders or otherwise permitted by the antidilution provisions of the plan, the exercise price of an outstanding option may not be reduced, directly or indirectly, and the original term of an option may not be extended.

Under Section 162(m) of the Code, a public company generally may not deduct compensation in excess of $1 million paid to its Chief Executive Officer and the four next most highly compensated executive officers. Until the annual meeting of our stockholders in 2010, or until the incentive stock plan is materially amended, if earlier, awards granted under the incentive stock plan will be exempt from the deduction limits of Section 162(m). In order for awards granted after the expiration of such grace period to be exempt, the incentive stock plan must be amended to comply with the exemption conditions and be resubmitted for approval by our stockholders.

**Code of Business Conduct and Ethics**

We have adopted a Code of Business Conduct and Ethics, or the Code of Ethics, which contains general guidelines for conducting our business and is designed to help directors, employees and independent consultants resolve ethical issues in an increasingly complex business environment. The Code of Ethics applies to our principal executive officer, principal financial officer, principal accounting officer, controller and persons performing similar functions and all members of our board of directors. The Code of Ethics covers topics including, but not limited to, conflicts of interest, confidentiality of information, and compliance with laws and regulations. The full text of our Code of Ethics is published on our web site at *www.htareit.com*. We intend to disclose future amendments to certain provisions of our Code of Ethics, or waivers of such provisions granted to executive officers and directors, on the web site within four business days following the date of such amendment or waiver.

**Indemnification Agreements**

We have entered into indemnification agreements with each of our independent directors, non-independent director and officers. Pursuant to the terms of these indemnification agreements, we will indemnify and advance expenses and costs incurred by our directors and officers in connection with any claims, suits or proceedings brought against such directors and officers as a result of his or her service. However, our indemnification obligation is subject to the limitations set forth in the indemnification agreements and in our charter.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires each director, officer, and individual beneficially owning more than 10.0% of a registered security of the company to file with the SEC, within specified time frames, initial statements of beneficial ownership (Form 3) and statements of changes in beneficial ownership (Forms 4 and 5) of common stock of the company. These specified time frames require the reporting of changes in ownership within two business days of the transaction giving rise to the reporting obligation. Reporting persons are required to furnish us with copies of all Section 16(a) forms filed with the SEC. Based solely on a review of the copies of such forms furnished to us during and with respect to the year ended December 31, 2009 or written representations that no additional forms were required, to the best of our knowledge, all required Section 16(a) filings were timely and correctly made by reporting persons during 2009.

## Item 11. Executive Compensation.

## COMPENSATION DISCUSSION AND ANALYSIS

In the paragraphs that follow, we provide an overview and analysis of our compensation program and policies, the material compensation decisions we have made under those programs and policies with respect to our named executive officers, and the material factors that we considered in making those decisions. Following this Compensation Discussion and Analysis, under the heading Executive Compensation you will find a series of tables containing specific data about the compensation earned in 2009 by the following individuals, whom we refer to as our named executive officers:

Scott D. Peters, President, Chief Executive Officer and Chairman of the Board;

Kellie S. Pruitt, Chief Accounting Officer, Secretary and Treasurer; and

Mark D. Engstrom, Executive Vice President Acquisitions.

### Compensation Philosophy and Objectives

Our objective is to provide compensation packages that take into account the scope of the duties and responsibilities of each executive consistent with self-management. The compensation committee designed our new executive compensation packages to reflect the increased level of responsibilities and scope of duties attendant with our transition to self-management. In addition, we strive to provide compensation that rewards the achievement of specific short-, medium- and long-term strategic goals, and aligns the interests of key employees with stockholders. The compensation paid to the executives is designed to achieve the right balance of incentives and appropriately reward our executives and maximize their performance over the long-term.

Another key priority for us today and in the future is to attract, retain and motivate a top quality management team. In order to accomplish this objective, the compensation paid to our executives must be competitive in the marketplace. This is especially important given our status as a self-managed company.

In furtherance of these objectives, we refrain from using highly leveraged incentives that drive risky, short-term behavior. By rewarding short-, medium- and long-term performance, we are better positioned to achieve the ultimate objective of increasing stockholder value. To emphasize performance-based compensation, we also provide the opportunity to earn additional compensation through annual bonuses.

### How We Determined our Compensation Arrangements

We established the compensation packages for our named executive officers based on the advice and recommendations of the compensation committee and, with respect to our Chief Executive Officer, independent consultants, with a view on emphasizing competitive, performance-based compensation. The compensation committee intends for the level of cash- and stock-based compensation paid to our executives to be consistent with the compensation paid by a peer group of companies. The compensation committee does not benchmark to a particular percentile within the peer group, but rather uses the peer group information to help guide its compensation decisions.

The compensation committee engaged an outside executive compensation consultant, Towers Perrin, to assist it in determining the compensation for our Chief Executive Officer. At the request of the compensation

Table of Contents

committee, Towers Perrin provided input to the compensation committee on the design and philosophy of our Chief Executive Officer s compensation package, and reported on the competitiveness of such package in the marketplace. Towers Perrin presented information with respect to a peer group comprised of the following companies:

| | |
|---|---|
| HCP Inc. | Medical Properties Trust, Inc. |
| Health Care REIT, Inc. | Cogdell Spencer Inc. |
| Ventas Inc. | LTC Properties Inc. |
| Nationwide Health Properties Inc. | Inland Western Retail Real Estate Trust Inc.* |
| Healthcare Realty Trust Inc. | Piedmont Office Realty Trust Inc.* |
| Omega Healthcare Investors, Inc. | |

With the exception of those companies marked with an asterisk (*), the companies included in the peer group are publicly traded healthcare REITs with median assets of about $1.9B. Those companies marked with an asterisk (*) reflect selected non-traded REITs that have made the transition to self-management.

The compensation committee furnished to Towers Perrin the 2008 NAREIT Survey, including data from five healthcare companies (Cogdell Spencer Inc., HCP, Inc., Healthcare REIT Inc., Nationwide Health Properties and Ventas Inc.). In addition to information related to the peer group identified above, Towers Perrin included information from the NAREIT Survey, as well as compensation information from REITS of all sectors with total capitalization within a range of $1B-2.99B, in its presentation to the compensation committee.

In addition to the peer group information presented by Towers Perrin, the compensation committee reviewed a smaller peer group comprised of HCP, Inc., Health Care REIT, Inc., Ventas, Inc., Nationwide Health Properties Inc. and Healthcare Realty Trust, Inc. This group represents those companies that the compensation committee considers to be most comparable to our company.

Taken as a whole, the data provided by Towers Perrin, as well as the compensation committee s independent review of the smaller peer group described above, allows the compensation committee to double-check the compensation paid to our CEO against what is typical in our market.

In determining the compensation for Ms. Pruitt and Mr. Engstrom, the compensation committee relied primarily on the recommendations of Mr. Peters, as well as its general understanding of the compensation paid to similar positions within the peer group. The initial terms of Ms. Pruitt s and Mr. Engstrom s compensation packages were the result of negotiations between such executives and Mr. Peters in connection with recruiting them to join our company.

**Elements of our Compensation Program**

During 2009, the key elements of compensation for our named executive officers were base salary, annual bonus and long-term equity incentive awards, as described in more detail below. In addition to these key elements, we also provide severance protection for our named executive officers, as discussed below.

*Base Salary*. Base salary provides the fixed portion of compensation for our named executive officers and is intended to reward core competence in their role relative to skill, experience and contributions to us. In connection with entering into the employment agreements, the compensation committee approved the following initial annual base salaries: Mr. Peters, $500,000; Mr. Engstrom, $275,000; and Ms. Pruitt, $180,000. The compensation committee approved an increase to Mr. Peters 2008 base salary in order to more closely align his base salary with our peers. However, due to the compensation committee s focus on performance-based compensation, Mr. Peters base salary approximates the lower end of the scale of base salaries provided by our peer companies. To emphasize performance-based compensation, the compensation committee designed Mr. Peters compensation package so that the majority of his cash-based compensation may be earned through an annual bonus after the compensation committee s assessment of his performance during the year.

**Table of Contents**

As discussed above, the initial base salaries for Ms. Pruitt and Mr. Engstrom were negotiated in connection with their joining our company. Also as discussed above, a key priority for us is to attract, retain and motivate a top quality management team. In order to attract a high caliber management team, the compensation packages offered must be competitive within the market, as well as reflective of the executive s level of skill and expected contributions. These were the guiding principles followed by Mr. Peters and the compensation committee in negotiating the compensation packages with Ms. Pruitt and Mr. Engstrom.

*Annual Bonus.* Annual bonuses reward and recognize contributions to our financial goals and achievement of individual objectives. In 2009, we did not have a formal bonus program. Each of the named executive officers is eligible to earn an annual performance bonus in an amount determined at the sole discretion of the compensation committee for each year. Pursuant to the terms of their employment agreements, Mr. Peters initial maximum bonus is 200% of base salary. Mr. Engstrom s and Ms. Pruitt s initial target bonus is 100% and 60%, respectively, of base salary.

The compensation committee, together with Mr. Peters, developed a broad list of goals and objectives for 2009. The compensation committee awarded Mr. Peters the maximum bonus payable to him under his employment agreement based on its assessment of his performance during fiscal year 2009. In reviewing his performance, the compensation committee concluded that Mr. Peters accomplished, and in many cases, exceeded such goals and objectives, which included:

effectively leading the expansion of the company, including growing our portfolio through the acquisition of quality, performing assets;

successfully negotiating substantial and creative value-added transaction terms and conditions;

coordinating successful and competitive refinancing transactions during a time of significant dislocations in the credit markets;

leading our successful transition to self-management;

recruiting and effectively supervising our employees;

implementing effective risk management at all key levels of the company;

maintaining a strong and solid balance sheet;

coordinating the engagement of new, competitively-priced and performance-driven property management companies for our portfolio;

leading the extension of our initial offering for up to 180 days, successfully transitioning the dealer manager for our initial offering to RCS and spearheading the registration of the follow-on offering;

establishing and enhancing our relationships with commercial and investment banks;

maintaining and actively enhancing our stockholder first, performance- driven philosophy;

effectively establishing our independent brand name as an asset to our company; and

facilitating an open and effective dialogue with our board.

In addition to the annual bonus available under his employment agreement, after an extensive review of the peer group information and Mr. Peters performance in 2009, the compensation committee also awarded Mr. Peters an extraordinary bonus of $200,000. The extraordinary bonus recognizes and rewards Mr. Peters for (i) his expanded role and extraordinary efforts in providing demonstrated and effective leadership to our company, and (ii) positioning the company for continued success during recent unprecedented, difficult economic times, and in the future.

The compensation committee relied primarily on the recommendations of Mr. Peters in determining the bonus amounts for Mr. Engstrom and Ms. Pruitt. Mr. Peters based his recommendations on his assessment of Mr. Engstrom and Ms. Pruitt s performance during 2009. For example, Mr. Peters considered the number of successful acquisitions that Mr. Engstrom negotiated and completed and his management of the company s

**Table of Contents**

acquisitions team. Mr. Peters recommended a bonus for Ms. Pruitt in excess of the target bonus provided in her employment agreement because of her outstanding performance and significant accomplishments during 2009, including playing a key role in our transition to self-management, establishing our corporate office and infrastructure, building our accounting team and successfully transitioning our investor services operations to DST Systems, Inc. The compensation committee considered Mr. Peters recommendations and approved the bonuses for Mr. Engstrom and Ms. Pruitt.

*Long-Term Equity Incentive Awards*. Long-term equity incentive awards are an important element of our compensation program because these awards align the interests of our named executive officers with those of our stockholders and provide a strong retentive component to the executive s compensation arrangement. Restricted stock and restricted stock units are the primary equity award vehicle offered to our named executive officers. The compensation committee reviewed the grant practices of the peer group companies and awarded our named executive officers equity awards with a value that is consistent with the equity grants provided by the peer group.

Restricted stock has a number of attributes that makes it an attractive equity award for our CEO. The vesting schedule provides a strong retention element to Mr. Peters compensation package if Mr. Peters voluntarily terminates employment, he will forfeit his unvested restricted stock. At the same time, Mr. Peters retains the attributes of stock ownership through voting rights and distributions. Given that there is no readily available market providing liquidity for our common shares, and in light of the limitation in our governing documents that poses an obstacle to our withholding shares from the restricted stock when it vests, the compensation committee designed Mr. Peters award so that he could elect to receive a portion of the value of the award in cash in order to satisfy his tax obligations. In addition, in connection with entering into his new employment agreement, Mr. Peters received a one-time signing-bonus of 50,000 shares of our common stock, of which Mr. Peters elected to receive 25,000 fully-vested shares of our common stock and a $250,000 cash payment. For additional information regarding these grants, see the Grants of Plan-Based Award table and the narrative following such table later in this Annual Report on Form 10-K.

We provide long-term equity incentive awards to Ms. Pruitt and Mr. Engstrom in the form of restricted stock units. Like restricted stock, the restricted stock units provide a strong retention element to their compensation packages. However, restricted stock units do not entitle the holder to distributions.

*Employment Agreements*. As mentioned above, in 2009, we entered into employment agreements with Ms. Pruitt and Mr. Engstrom and a new employment agreement with Mr. Peters. In considering the appropriate terms of the employment agreements, the compensation committee focused on the increased duties and responsibilities of such individuals under self-management. Each of these executives has played and will continue to play a major role in hiring, supervising and overseeing our employees, the transition and implementation of self-management and the post-transition management of our company. In particular, as part of and as a result of this transition, the role of Mr. Peters, as our Chief Executive Officer and President, has been significantly expanded on a number of levels. Each of the employment agreements also specifies the payments and benefits to which Messrs. Peters and Engstrom and Ms. Pruitt are entitled upon a termination of employment for specified reasons. For additional information regarding the potential severance payments to our named executive officers, see Potential Payments Upon Termination or Change in Control later in this Annual Report on Form 10-K.

## REPORT OF THE COMPENSATION COMMITTEE

Our compensation committee of our board of directors oversees our compensation program on behalf of our board. In fulfilling its oversight responsibilities, the committee reviewed and discussed with management the above Compensation Discussion and Analysis included in this report.

In reliance on the review and discussion referred to above, our compensation committee recommended to the board of directors that the Compensation Discussion and Analysis be included in our Annual Report on Form 10-K for the year ended December 31, 2009, and our proxy statement on Schedule 14A to be filed in connection with our 2010 annual meeting of stockholders, each of which has been or will be filed with the SEC.

Table of Contents

This report shall not be deemed to be incorporated by reference by any general statement incorporating by reference this Annual Report on Form 10-K into any filing under the Securities Act of 1933, as amended, or the Exchange Act and shall not otherwise be deemed filed under such acts. This report is provided by the following independent directors, who constitute the committee:

Gary T. Wescombe, Chair
W. Bradley Blair, II
Warren D. Fix

**Summary Compensation Table**

The summary compensation table below reflects the total compensation earned by our named executive officers for the years ended December 31, 2008, and December 31, 2009. We did not employ any other executive officer other than Mr. Peters for the year ended December 31, 2008.

| Name and Principal Position | Year | Salary ($) | Bonus ($)(4) | Stock Awards ($)(5) | Non-Equity Incentive Plan Compensation ($) | All Other Compensation ($)(7) | Total ($) |
|---|---|---|---|---|---|---|---|
| Scott D. Peters | 2009 | 504,753 | 1,200,000 | 750,000 | 375,000(6) | 4,935 | 2,834,688 |
| Chief Executive Officer, President and Chairman of the Board (Principal Executive Officer) | 2008 | 148,333 (3) | 58,333 | 400,000 | | 2,252 | 608,918 |
| Kellie S. Pruitt(1) Chief Accounting Officer, Secretary and Treasurer (Principal Financial Officer) | 2009 | 168,942 | 125,000 | 250,000 | | 3,022 | 546,964 |
| Mark D. Engstrom(2) Executive Vice President Acquisitions | 2009 | 252,403 | 110,000 | 400,000 | | 26,589 | 788,992 |

(1) Ms. Pruitt was appointed as Chief Accounting Officer in January, 2009, as Treasurer in April, 2009, and as Secretary in July 2009.

(2) Mr. Engstrom was appointed as Executive Vice President Acquisitions in July, 2009.

(3) Reflects (a) $90,000 received pursuant to Mr. Peters consulting arrangement with us from August 1, 2008, through October 31, 2008, and (b) $58,333 received as base salary pursuant to his 2008 employment agreement with us from November 1, 2008, through December 31, 2008.

(4) Reflects the annual cash bonuses earned by our named executive officers for the applicable year.

(5)

Reflects the aggregate grant date fair value of awards granted to the named executive officers in the reported year, determined in accordance with Financial Accounting Standards Board ASC Topic 718 Stock Compensation ( ASC Topic 718 ). For information regarding the grant date fair value of awards of unrestricted stock, restricted stock and restricted stock units, see Note 14, Stockholders Equity (Deficit), to our accompanying consolidated financial statements.

(6) Reflects two restricted cash awards that Mr. Peters elected to receive in lieu of a grant of restricted shares. Under one award, $125,000 was fully-vested on the date of grant and $375,000 remains subject to vesting. Under the second award, $250,000 fully vested at issuance. See the Grants of Plan-Based Awards table and the narrative following the Grants of Plan-Based Awards table for additional information regarding this award.

(7) Amounts included in this column for 2009 include payments for 100% of the premiums for health care coverage under our group health plan for each of the named executive officers in the following amounts: Mr. Peters, $4,935; Ms. Pruitt, $3,022; and Mr. Engstrom, $4,935. Also includes for Mr. Engstrom relocation expenses of $21,654. Such amounts reflect the aggregate cost to us of providing the benefit.

**Grants of Plan-Based Awards**

The following table presents information concerning plan-based awards granted to our named executive officers for the year ended December 31, 2009. All awards were granted pursuant to the NNN Healthcare/

Table of Contents

Office REIT, Inc. 2006 Incentive Plan (the 2006 Incentive Plan ). The narrative following the Grants of Plan-Based Awards table provides additional information regarding the awards reflected in this table.

**Grants of Plan-Based Awards Table in Fiscal Year 2009**

| Name | Grant Date | Estimated Future Payouts under Non-Equity Incentive Plan Awards(1) Threshold ($) | Target ($) | Maximum ($) | All Other Stock Awards: Number of Shares of Stock or Units (#) | Grant Date Fair Value of Stock and Option Awards ($)(6) |
|---|---|---|---|---|---|---|
| Mr. Peters | 07/01/09 | | 500,000(1) | | | |
| | 07/01/09 | | | | 25,000(2) | 250,000 |
| | 07/01/09 | | | | 50,000(3) | 500,000 |
| Ms. Pruitt | 07/30/09 | | | | 25,000(4) | 250,000 |
| Mr. Engstrom | 8/31/09 | | | | 40,000(5) | 400,000 |

(1) Reflects a restricted cash award pursuant to the 2006 Incentive Plan. There is no threshold, target or maximum payable pursuant to this award; instead, the award vests based on Mr. Peters continued service with us.

(2) Reflects a grant of 25,000 fully-vested shares of our common stock.

(3) Reflects a grant of 50,000 restricted shares of our common stock.

(4) Reflects a grant of 25,000 restricted stock units.

(5) Reflects a grant of 40,000 restricted stock units.

(6) Computed in accordance with ASC Topic 718.

**Material Terms of 2009 Compensation**

We are party to an employment agreement with each of Messrs. Peters and Engstrom and Ms. Pruitt. The material terms of the employment agreements are described below.

*Term.* Mr. Peters employment agreement is for an initial term of four and one-half years, ending on December 31, 2013. Beginning on that date, and on each anniversary thereafter, the term of the agreement automatically will extend for additional one-year periods unless either party gives prior notice of non-renewal. Mr. Engstrom s and Ms. Pruitt s employment agreement each has an initial term of two years, ending on June 30, 2011. At our sole discretion, Mr. Engstrom s and Ms. Pruitt s agreement may be extended for an additional one-year term.

*Base Salary and Benefits.* The agreements provide for the following initial annual base salaries: Mr. Peters, $500,000; Mr. Engstrom, $275,000; and Ms. Pruitt, $180,000. All salaries may be adjusted from year to year in the sole discretion of the compensation committee, provided that Mr. Peters base salary may not be reduced. The agreements provide that each of the executives will be eligible to earn an annual performance bonus in an amount determined at the sole discretion of the compensation committee for each year. Mr. Peters initial maximum bonus is 200% of base salary. Mr. Engstrom s and Ms. Pruitt s initial target bonus is 100% and 60%, respectively, of base salary. Each executive is entitled to all employee benefits and perquisites made available to our senior executives, provided that we will pay 100% of the premiums for each executive s health care coverage under our group health plan. Mr. Engstrom also received relocation expenses (up to a maximum of $30,000) in connection with his move from Colorado to Arizona.

*Equity Grants.* Messrs. Peters and Engstrom and Ms. Pruitt received equity grants in connection with entering into their employment agreements. The equity awards have been or will be granted under and pursuant to the terms and conditions of the 2006 Incentive Plan. Pursuant to the terms of his employment agreement, on July 1, 2009, Mr. Peters was entitled to the following equity grants:

> *Fully-Vested Shares.* Mr. Peters was entitled to receive a grant of 50,000 fully-vested shares. Pursuant to the terms of his employment agreement, Mr. Peters elected to receive a $250,000 cash payment, in lieu of one-half of such shares, and 25,000 fully-vested shares.

**Table of Contents**

*Fiscal 2009 Restricted Shares.* Mr. Peters was entitled to receive a grant of 100,000 restricted shares of our common stock. Pursuant to the terms of his employment agreement, Mr. Peters elected to receive a restricted cash award in lieu of 50,000 restricted shares, as described below. The restricted shares vest as follows: 12,500 on July 1, 2009 (the date of grant); 12,500 on July 1, 2010; 12,500 on July 1, 2011; and 12,500 on July 1, 2012, provided Mr. Peters is employed by us on each such vesting date.

*Fiscal 2009 Restricted Cash Award.* As described above, Mr. Peters elected to receive a restricted cash award in lieu of 50,000 restricted shares. The restricted cash award is equal to $500,000, the fair market value of the foregone restricted shares on the date of grant, and is subject to the same restrictions and vesting schedule as the foregone restricted shares. Accordingly, the restricted cash award vests as follows: $125,000 vested on July 1, 2009 (the date of grant), $125,000 on July 2, 2010; $125,000 on July 1, 2011; and $125,000 on July 1, 2012, provided Mr. Peters is employed by us on each such vesting date.

*Future Restricted Share Grants and Restricted Cash Awards.* Pursuant to the terms of his employment agreement, Mr. Peters is entitled to receive on each of the first three anniversaries of the effective date of the agreement, an additional 100,000 restricted shares of our common stock, which will vest in equal installments on the grant date and on each anniversary of the grant date during the balance of the term of the employment agreement, provided he is employed by us on each such vesting date. As with the 2009 grant, Mr. Peters may in his sole discretion elect to receive a restricted cash award in lieu of up to one-half of each grant of restricted shares (i.e., up to 50,000 shares), which restricted cash award will be equal to the fair market value of the foregone restricted shares and will be subject to the same restrictions and vesting schedule as the foregone restricted shares.

Pursuant to the terms of his employment agreement, on August 31, 2009, Mr. Engstrom received a grant of 40,000 restricted stock units. The restricted stock units will vest and convert to shares of our common stock in equal annual installments of 331/3% each, on the first, second and third anniversaries of the date of grant, provided he is employed by us on each such vesting date.

Pursuant to the terms of her employment agreement, on July 30, 2009, Ms. Pruitt received a grant of 25,000 restricted stock units. The restricted stock units will vest and convert to shares of our common stock in equal annual installments of 331/3% each, on the first, second and third anniversaries of the date of grant, provided she is employed by us on each such vesting date.

Mr. Peters shares of restricted stock and restricted cash award(s) and Mr. Engstrom s and Ms. Pruitt s restricted stock units will become immediately vested and, with respect to the restricted stock units, convert to shares of our common stock, upon the earlier occurrence of (1) their termination of employment by reason of death or disability, (2) their termination of employment by us without cause or by the executive for good reason (as such terms are defined in the employment agreement), or (3) a change in control (as defined in the 2006 Incentive Plan).

*Severance.* Each of the employment agreements also specifies the payments and benefits to which Messrs. Peters and Engstrom and Ms. Pruitt are entitled upon a termination of employment for specified reasons. See Potential Payments Upon Termination or Change in Control, later in this Annual Report on Form 10-K, for a description of these benefits.

Table of Contents

**Outstanding Equity Awards**

The following table presents information concerning outstanding equity awards held by our named executive officers as of December 31, 2009. Our named executive officers do not hold any option awards.

**Outstanding Equity Awards at 2009 Fiscal Year-End**

| | Stock Awards | |
|---|---|---|
| **Name** | **Number of Shares or Units of Stock That Have Not Vested (#)** | **Market Value of Shares or Units of Stock That Have Not Vested ($)**(5) |
| Mr. Peters | 26,667(1) | 266,670 |
| | 37,500(2) | 375,000 |
| Ms. Pruitt | 25,000(3) | 250,000 |
| Mr. Engstrom | 40,000(4) | 400,000 |

(1) Reflects restricted shares of our common stock, which vest and become non-forfeitable in equal installments on each of November 14, 2010, and November 14, 2011, provided Mr. Peters is employed by us on each such vesting date.

(2) Reflects restricted shares of our common stock, which vest and become non-forfeitable in equal installments on each of July 1, 2010, July 1, 2011 and July 1, 2012, provided Mr. Peters is employed by us on each such vesting date.

(3) Reflects restricted stock units, which vest in equal annual installments on each of July 30, 2010, July 30, 2011, and July 30, 2012, provided Ms. Pruitt is employed by us on each such vesting date.

(4) Reflects restricted stock units, which vest in equal annual installments on each of August 31, 2009, August 31, 2010, and August 31, 2011, provided Mr. Engstrom is employed by us on each such vesting date.

(5) Calculated using the per share price of shares of our common stock as of the close of business on December 31, 2009, based upon the price per share offered in our initial public offering ($10).

**Option Exercises and Stock Vested**

The following table shows the number of shares acquired and the value realized upon vesting of stock awards for each of the named executive officers. Our named executive officers do not hold any option awards.

**Stock Vested in Fiscal Year 2009**

| | Stock Awards | |
|---|---|---|
| | **Number of Shares** | **Value Realized** |

| Named Executive Officer | Acquired on Vesting (#) | on Vesting ($) |
|---|---|---|
| Mr. Peters | 13,333(1) | 133,330 |
| | 37,500(2) | 375,000 |
| Ms. Pruitt | | |
| Mr. Engstrom | | |

(1) Reflects shares that vested pursuant to the terms of Mr. Peters restricted stock grant on November 14, 2008.

(2) Reflects shares that vested pursuant to the terms of Mr. Peters restricted stock grant on July 1, 2009.

**Potential Payments Upon Termination or Change in Control**

Summary of Potential Payments Upon Termination of Employment. As mentioned earlier in this Annual Report on Form 10-K, we are party to an employment agreement with each of our named executive officers, which provide benefits to the executive in the event of his or her termination of employment under certain conditions. The amount of the benefits varies depending on the reason for the termination, as explained below.

*Termination without Cause; Resignation for Good Reason.* If we terminate the executive s employment without Cause, or he or she resigns for Good Reason (as such terms are defined in the employment agreement), the executive will be entitled to the following benefits:

in the case of Mr. Peters, a lump sum severance payment equal to (a) the sum of (1) three times his then-current base salary plus (2) an amount equal to the average of the annual bonuses earned prior to the termination date (if termination occurs in the first year, the bonus will be calculated at $1,000,000), multiplied by (b) (1) if the date of termination occurs during the initial term, the greater of one, or the number of full calendar months remaining in the initial term, divided by 12, or (2) if the date of termination occurs during a renewal term after December 31, 2013, 1; provided that in no event may the severance benefit be less than $3,000,000;

in the case of Mr. Engstrom and Ms. Pruitt, a lump sum severance payment equal to two times his or her then-current base salary;

continued health care coverage under COBRA for 18 months, in the case of Mr. Peters, or six months, in the case of Mr. Engstrom and Ms. Pruitt, with all premiums paid by us; and

immediate vesting of Mr. Peters shares of restricted stock and restricted cash award(s) and Mr. Engstrom s and Ms. Pruitt s restricted stock units.

Cause, as defined in the employment agreements, generally means: (i) the executive s conviction of or entering into a plea of guilty or no contest to a felony or a crime involving moral turpitude or the intentional commission of any other act or omission involving dishonesty or fraud that is materially injurious to us; (ii) the executive s substantial and repeated failure to perform his or her duties; (iii) with respect to Ms. Pruitt and Mr. Engstrom, gross negligence or willful misconduct in the performance of the executive s duties which materially injures us or our reputation; or (iv) with respect to Ms. Pruitt and Mr. Engstrom, the executive s willful breach of the material covenants of his or her employment agreement.

Good Reason, as defined in Mr. Peters employment agreement generally means, in the absence of his written consent: (i) a material diminution in his authority, duties or responsibilities; (ii) a material diminution in the his base salary; (iii) relocation more than 35 miles from Scottsdale, Arizona; or (iv) a material diminution in the authority, duties, or responsibilities of the supervisor to whom he is required to report, including a requirement that he report to a corporate officer or employee instead of reporting directly to the Board. Good Reason as defined in Ms. Pruitt s and Mr. Engstrom s employment agreements, generally means, in the absence of a written consent of the executive: (i) except for executive nonperformance, a material diminution in the executive s authority, duties or responsibilities (provided that this provision will not apply if executive s then-current base salary is kept in place) or (ii) except in connection with a material decrease in our business, a diminution in the executive s base salary in excess of 30%.

*Disability.* If we terminate the executive s employment by reason of his or her disability, in addition to receiving his or her accrued rights, such as earned but unpaid base salary and any earned but unpaid benefits under company incentive plans, the executive will be entitled to continued health care coverage under COBRA, with all premiums paid by us, for 18 months, in the case of Mr. Peters, or six months, in the case of Mr. Engstrom or Ms. Pruitt. In addition, Mr. Peters shares of restricted stock and restricted cash award(s) and Mr. Engstrom s and Ms. Pruitt s restricted stock units will become immediately vested.

*Death; For Cause; Resignation without Good Reason.* In the event of a termination due to death, cause or resignation without good reason, an executive will receive his or her accrued rights, but he or she will not be entitled to receive severance benefits under the agreement. In the event of the executive s death, Mr. Peters shares of restricted stock and restricted cash award(s) and Mr. Engstrom s and Ms. Pruitt s restricted stock units will become immediately vested.

*Non-Compete Agreement.* Each of Messrs. Peters and Engstrom and Ms. Pruitt entered into a non-compete and non-solicitation agreement with us. These agreements generally require the executives to refrain from competing with us within the United States and soliciting our customers, vendors, or employees during employment through the occurrence of a liquidity event. The agreements also limit the executives ability to disclose or use any of our confidential business information or practices.

The following table summarizes the value of the termination payments and benefits that each of our named executive officers would receive if he or she had terminated employment on December 31, 2009 under the circumstances shown. The amounts shown in the tables do not include accrued but unpaid salary, earned annual bonus for 2009, or payments and benefits to the extent they are provided on a non-discriminatory basis to salaried employees generally upon termination of employment.

| | Termination for Cause or Resignation without Good Reason ($) | Termination without Cause or Resignation For Good Reason ($) | Death ($) | Disability ($) |
|---|---|---|---|---|
| **Mr. Peters** | | | | |
| Cash Severance(1) | $ | $ 10,000,000 | $ | $ |
| Benefit Continuation(2) | | 20,448 | | 20,448 |
| Value of Unvested Equity Awards(3) | | 641,670 | 641,670 | 641,670 |
| Value of Unvested Restricted Cash Awards(4) | | 375,000 | 375,000 | 375,000 |
| **TOTAL** | **$ 0** | **$ 11,037,118** | **$ 1,016,670** | **$ 1,037,118** |
| **Ms. Pruitt** | | | | |
| Cash Severance | $ | $ 360,000 | $ | $ |
| Benefit Continuation(2) | | 7,402 | | 7,402 |
| Value of Unvested Equity Awards(3) | | 250,000 | 250,000 | 250,000 |
| **TOTAL** | **$ 0** | **$ 617,402** | **$ 250,000** | **$ 257,402** |
| **Mr. Engstrom** | | | | |
| Cash Severance | $ | $ 550,000 | $ | $ |
| Benefit Continuation(2) | | 7,402 | | 7,402 |
| Value of Unvested Equity Awards(3) | | 400,000 | 400,000 | 400,000 |
| **TOTAL** | **$ 0** | **$ 957,402** | **$ 400,000** | **$ 407,402** |

(1) Represents cash severance payment based on a termination without Cause or a resignation for Good Reason. Such cash severance is calculated using the following formula (as discussed above) based on a termination date of December 31, 2009: (a) the sum of (1) three times his then-current base salary plus (2) an amount equal to the average of the annual bonuses earned prior to the termination date (if termination occurs in the first year, the bonus will be calculated at $1,000,000), multiplied by (b)(1) if the date of termination occurs during the initial term, the greater of one, or the number of full calendar months remaining in the initial term, divided by 12, or (2)

if the date of termination occurs during a renewal term after December 31, 2013, 1.

(2) Represents company-paid COBRA for medical and dental coverage based on 2010 rates for 18 months, in the case of Mr. Peters, or six months, in the case of Mr. Engstrom and Ms. Pruitt.

(3) Represents the value of unvested equity awards that vest upon the designated event. Pursuant to the 2006 Incentive Plan, equity awards vest upon the executive s termination of service with us due to death or disability or upon their termination by us without cause or their resignation for good reason. Awards of restricted stock and restricted stock units are valued as of year-end 2009 based upon the fair market value of our common stock on December 31, 2009, the last day in our 2009 fiscal year ($10).

(4) Represents the value of the unvested restricted cash award (which Mr. Peters elected to receive in lieu of 50,000 restricted shares, as described above under Material Terms of 2009 Compensation ).

*Summary of Potential Payments upon a Change in Control.* Pursuant to the 2006 Incentive Plan, equity awards, and Mr. Peters restricted cash award, vest upon the occurrence of a change in control of our company. The 2006 Incentive Plan generally provides that a Change in Control occurs upon the occurrence of any of the following: (1) when our incumbent board of directors cease to constitute a majority of the board of directors; (2) except in the case of certain issuances or acquisitions of stock, when any person acquires a 25% or more ownership interest in the outstanding combined voting power of our then outstanding securities; or (3) the consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of our assets, unless (a) the beneficial owners of our combined voting power immediately prior to the transaction continue to own 50% or more of the combined voting power of our then outstanding securities, (b) no person acquires a 25% or more ownership interest in the combined voting power of our then outstanding securities, and (c) at least a majority of the members of the board of directors of the surviving corporation were incumbent directors at the time of approval of the corporate transaction. In the event that a Change in Control occurs which results in a Good Reason (as defined above) resignation by Mr. Peters, Mr. Engstrom, and/or Ms. Pruitt such resigning employee(s) shall be entitled to the severance benefits set forth above.

The following table summarizes the value of the payments that each of our named executive officers would receive if a change in control occurred on December 31, 2009, regardless of whether the executive incurs a termination of employment. Should a termination of employment occur upon a change in control, the executive would be paid benefits pursuant to Termination without Cause as previously described.

| | |
|---|---|
| **Mr. Peters** | |
| Value of Unvested Equity Awards(1) | $ 641,670 |
| Value of Unvested Restricted Cash Awards(2) | $ 375,000 |
| **TOTAL** | **$ 1,016,670** |
| **Ms. Pruitt** | |
| Value of Unvested Equity Awards(1) | $ 250,000 |
| **TOTAL** | **$ 250,000** |
| **Mr. Engstrom** | |
| Value of Unvested Equity Awards(1) | $ 400,000 |
| **TOTAL** | **$ 400,000** |

(1) Represents the value of unvested awards of restricted stock and restricted stock units, as applicable, which are valued as of year-end 2009 based upon the fair market value of our common stock on December 31, 2009, the last day in our 2009 fiscal year ($10).

(2) Represents the value of the unvested restricted cash award (which Mr. Peters elected to receive in lieu of 50,000 restricted shares, as described above under Material Terms of 2009 Compensation ).

The Risk Management Committee reviews our compensation policies and practices as a part of its overall review of the material risks or exposures associated with our internal and external exposures. Through its continuous process of review, we have concluded that our compensation policies are not reasonably likely to have a material adverse effect on us.

**Director Compensation**

Pursuant to the terms of our director compensation program, which are contained in our 2006 Independent Directors Compensation Plan, a sub-plan of our 2006 Incentive Plan, as amended, our independent directors received the following forms of compensation during 2009:

*Annual Retainer.* Our independent directors receive an annual retainer of $50,000.

*Annual Retainer, Committee Chairman.* The chairman of each board committee (including the audit committee, the compensation committee, the nominating and corporate governance committee, the investment committee and the risk management committee) receives an additional annual retainer of $7,500.

*Meeting Fees.* Our independent directors receive $1,500 for each board meeting attended in person or by telephone and $1,000 for each committee meeting attended in person or by telephone. An additional $1,000 is paid to the committee chair for each committee meeting attended in person or by telephone. If a board meeting is held on the same day as a committee meeting, an additional fee will not be paid for attending the committee meeting.

*Equity Compensation.* Upon initial election to our board of directors, each independent director receives 5,000 shares of restricted common stock, and an additional 5,000 shares of restricted common stock upon his or her subsequent election each year. The shares of restricted common stock vest as to 20% of the shares on the date of grant and on each anniversary thereafter over four years from the date of grant.

*Expense Reimbursement.* We reimburse our directors for reasonable out-of-pocket expenses incurred in connection with attendance at meetings, including committee meetings, of our board of directors.

Independent directors do not receive other benefits from us. Our non-independent director, Mr. Peters, does not receive any compensation in connection with his service as a director.

The following table sets forth the compensation earned by our independent directors for the year ended December 31, 2009:

**Director Compensation Table for 2009**

| Name | Fees Earned or Paid in Cash ($) | Stock Awards ($)(1) | Total ($) |
|---|---|---|---|
| W. Bradley Blair, II | 110,500 | 33,333 | 142,333 |
| Maurice J. DeWald | 105,000 | 33,333 | 138,333 |
| Warren D. Fix | 105,000 | 33,333 | 138,333 |
| Larry L. Mathis | 94,000 | 33,333 | 127,333 |
| Gary T. Wescombe | 106,000 | 33,333 | 139,333 |

(1) Reflects the aggregate grant date fair value of restricted stock awards granted to the directors, determined in accordance with ASC Topic 718. For information regarding the grant date fair value of awards of unrestricted stock, restricted stock and restricted stock units, see Note 14, Stockholders Equity (Deficit), to our accompanying consolidated financial statements. On August 31, 2009, each of the independent directors received 5,000 shares of restricted stock. The aggregate number of shares of restricted common stock held by each independent director as of December 31, 2009 is as follows: Mr. Blair, 7,500; Mr. DeWald, 7,500; Mr. Fix, 7,500; Mr. Mathis, 8,500; and Mr. Wescombe, 7,500.

## COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 2009, W. Bradley Blair, II, Maurice J. DeWald, Warren D. Fix, Larry L. Mathis and Gary T. Wescombe, all of whom are independent directors, served on our compensation committee. None of them was an officer or employee of our company in 2009 or any time prior thereto. During 2009, none of the members of the compensation committee had any relationship with our company requiring disclosure under Item 404 of Regulation S-K. None of our executive officers served as a member of the board of directors or compensation committee, or similar committee, of another entity, one of whose executive officer(s) served as a member of our board of directors or our compensation committee.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

### PRINCIPAL STOCKHOLDERS

The following table shows, as of March 3, 2010, the number of shares of our common stock beneficially owned by: (1) any person who is known by us to be the beneficial owner of more than 5.0% of the outstanding shares of our common stock, (2) our directors, (3) our named executive officers and (4) all of our directors and executive officers as a group. The percentage of common stock beneficially owned is based on 91,264,688 shares of our common stock outstanding as of March 3, 2010. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes securities over which a person has voting or investment power and securities that a person has the right to acquire within 60 days.

| **Name of Beneficial Owners**(1) | **Number of Shares Beneficially Owned** | **Percentage** |
|---|---|---|
| Scott D. Peters(2) | 115,000 | * |
| Kellie Pruitt | | |
| Mark D. Engstrom | | |
| W. Bradley Blair, II(2) | 15,000 | * |
| Maurice J. DeWald(2) | 15,000 | * |
| Warren D. Fix(2) | 17,374 | * |
| Larry L. Mathis(2) | 20,525 | * |
| Gary T. Wescombe(2) | 15,000 | * |
| All directors and executive officers as a group (8 persons) | 197,899 | * |

* Represents less than 1.0% of our outstanding common stock.

(1) The address of each beneficial owner listed is c/o Healthcare Trust of America, Inc., The Promenade, 16427 North Scottsdale Road, Suite 440, Scottsdale, Arizona 85254.

(2) Includes vested and non-vested shares of restricted common stock.

### EQUITY COMPENSATION PLAN INFORMATION

Under the terms of our 2006 Incentive Plan, as amended January 1, 2009, the aggregate number of shares of our common stock subject to options, shares of restricted common stock, stock purchase rights, stock appreciation rights or other awards, including those issuable under its sub-plan, the 2006 Independent Directors Compensation Plan, will be no more than 2,000,000 shares.