

Grubb & Ellis Healthcare REIT, Inc.

Form 10-K

March 25, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

(Mark One)

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

For the fiscal year ended **December 31, 2007**

or

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

For the transition period from _____ to _____

Commission file number: **333-133652**

GRUBB & ELLIS HEALTHCARE REIT, INC.
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

20-4738467
(I.R.S. Employer
Identification No.)

1551 N. Tustin Avenue, Suite 300
Santa Ana, California
(Address of principal executive offices)

92705
(Zip Code)

Registrant's telephone number, including area code: **(714) 667-8252**

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:

None
(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.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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.

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

Accelerated filer

Non-accelerated filer

Smaller reporting
company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of June 20, 2007, the last business day of the registrant's most recently completed second fiscal quarter, there were 10,523,026 shares of common stock outstanding held by non-affiliates of the registrant. No established market exists for the registrant's shares of common stock.

As of March 14, 2008, there were 26,440,418 shares of common stock of Grubb & Ellis Healthcare REIT, Inc. outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

Grubb & Ellis Healthcare REIT, Inc.
(A Maryland Corporation)

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PART I

Item 1. Business.

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

OUR COMPANY

Grubb & Ellis Healthcare REIT, Inc. (formerly known as NNN Healthcare/Office REIT, Inc.), a Maryland corporation, was incorporated on April 20, 2006. We were initially capitalized on April 28, 2006 and therefore we consider that our date of inception. We provide stockholders the potential for income and growth through investment in a diversified portfolio of real estate properties, focusing primarily on medical office buildings, healthcare-related facilities and quality commercial office properties. We may also invest in real estate related securities. We focus primarily on investments that produce current income. We intend to elect to be treated as a real estate investment trust, or REIT, for federal income tax purposes for our taxable year ended December 31, 2007 when we file our fiscal year 2007 tax return.

We are conducting a best efforts initial public offering, or our Offering, in which we are offering up to 200,000,000 shares of our common stock for \$10.00 per share and 21,052,632 shares of our common stock pursuant to our distribution reinvestment plan, or the DRIP, at \$9.50 per share, aggregating up to \$2,200,000,000.

We conduct substantially all of our operations through Grubb & Ellis Healthcare REIT Holdings, L.P. (formerly known as NNN Healthcare/Office REIT Holdings, L.P.), or our operating partnership. We are externally advised by Grubb & Ellis Healthcare REIT Advisor, LLC (formerly known as NNN Healthcare/Office REIT Advisor, LLC), or our advisor, pursuant to an advisory agreement, or the Advisory Agreement, between us, our advisor and Grubb & Ellis Realty Investors, LLC, or Grubb & Ellis Realty Investors (formerly known as Triple Net Properties, LLC), who is the managing member of our advisor. The Advisory Agreement had a one-year term that expired on September 19, 2007 and was subject to successive one-year renewals upon the mutual consent of the parties. On September 18, 2007, our board of directors extended the Advisory Agreement on a month-to-month basis. On October 24, 2007, our board of directors authorized the renewal of our Advisory Agreement for a term of one year ending on October 24, 2008. Our advisor supervises and manages our day-to-day operations and selects the properties and securities we acquire, subject to the oversight by our board of directors. Our advisor also provides marketing, sales and client services on our behalf. Our advisor is affiliated with us in that we and our advisor have common officers, some of whom also own an indirect equity interest in our advisor. Our advisor engages affiliated entities, including Triple Net Properties Realty, Inc., or Realty, to provide various services to us, including property management services.

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

and Grubb & Ellis Securities, Inc., respectively.

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Developments during 2007 and 2008

In February 2007, our board of directors increased our distribution rate from 6.50% to 7.25% per annum, to be paid beginning with our February 2007 monthly distribution which was paid in March 2007. Distributions are paid monthly.

On September 10, 2007, we entered into a loan agreement, or the Loan Agreement, with LaSalle National Bank Association, or LaSalle, to obtain a secured revolving credit facility in an aggregate maximum principal amount of \$50,000,000, or the LaSalle line of credit. The initial term of the Loan Agreement is three years, which may be extended by one 12-month period. The maximum principal amount of the Loan Agreement may be increased to \$120,000,000 subject to the terms of the Loan Agreement. On December 12, 2007, we entered into a Modification of the Loan Agreement to increase the aggregate maximum principal amount available under the LaSalle line of credit from \$50,000,000 to \$80,000,000 and to add KeyBank National Association, or KeyBank, as a lender under the LaSalle line of credit, which we refer to as our secured revolving line of credit with LaSalle and KeyBank.

As of December 31, 2007, we had acquired 20 properties, 15 of which are medical office buildings, three of which are healthcare-related facilities, and two of which are quality commercial office properties, comprising 2,233,000 square feet of gross leaseable area, or GLA, for an aggregate purchase price of \$408,440,000, in 12 states.

In 2008, we acquired five additional medical office buildings comprising 343,000 square feet of GLA, for an aggregate purchase price of \$70,800,000, in six states.

As of March 14, 2008, we had received and accepted subscriptions in our Offering for 25,933,558 shares of our common stock, or \$259,042,000, excluding shares issued under the DRIP.

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Our Structure

The following is a summary of our organizational structure as of December 31, 2007:

Our principal executive offices are located at 1551 N. Tustin Avenue, Suite 300, Santa Ana, California 92705 and the telephone number is (714) 667-8252. Our sponsor maintains a web site at www.gbe-reits.com at which there is additional information about us and our affiliates. 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

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www.gbe-reits.com as soon as reasonably practicable after such materials are electronically filed with the Securities and Exchange Commission, or the SEC. They are also available for printing by any stockholder upon request.

CURRENT INVESTMENT OBJECTIVES AND POLICIES

General

Our investment objectives are:

- to pay regular cash distributions;
- to preserve, protect and return our stockholders' capital contributions; and
- to realize growth in the value of our investments upon our ultimate sale of such investments.

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 advisor, 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 as well as the officers of our advisor.

Business Strategies

We will continue to invest in a diversified portfolio of real estate, focusing primarily on investments that produce current income. Our real estate investments focus on medical office buildings, healthcare-related facilities and quality commercial office properties. We may also invest in real estate related securities. However, we do not presently intend to invest more than 15.0% of our total assets in real estate related securities. Our real estate related securities investments will generally focus on common and preferred stock of public or private real estate companies, collateralized mortgage-backed securities, other forms of mortgage debt and certain other securities, including collateralized debt obligations and foreign 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 real estate related securities.

In addition, when and as determined appropriate by our advisor, 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 advisor will make 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 current income and capital appreciation upon the ultimate sale of properties.

For each of our investments, regardless of property type, our advisor seeks to ensure that we 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.

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Market; and Supply and Demand. We focus on local or regional markets which have potential for stable and growing property level cash flow over the long-term. These determinations will be based in part on an evaluation of local economic, demographic and regulatory factors affecting the property. For instance, we will 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 and stringent zoning restrictions. In addition, we will 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 will 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.

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 will depend 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.

Acquisition Strategies

Real Property Investments

We invest in a diversified portfolio of properties, focusing primarily on properties that produce current income. We generally seek investments in medical office buildings, healthcare-related facilities and quality commercial office properties.

Our advisor generally seeks to acquire properties on our behalf of the types described above that will best enable us to meet our investment objectives, taking into account the diversification of our portfolio at the time, relevant real estate and financial factors, the location, income-producing capacity and the prospects for long-range appreciation of a particular property and other considerations. As a result, we may acquire properties other than the types described above. In addition, we may acquire properties that vary from the parameters described above for a particular property type.

The consideration to be paid for each real estate investment must be authorized by a majority of our directors or a duly authorized committee of our board of directors, which is ordinarily based on the fair market value of the investment. If the majority of our independent directors or a duly authorized committee of our board of directors so determines, or if the investment is to be acquired from an affiliate, the fair market value determination will be supported by an appraisal obtained from a qualified, independent appraiser selected by a majority of our independent directors.

Our investments in real estate generally include our holding fee title or long-term leasehold interests. Our investments may be made either directly through our operating partnership or indirectly through investments in joint ventures, limited liability companies, general partnerships or other co-ownership arrangements with the developers of the properties, affiliates of our advisor or other persons. See [Joint Venture Investments](#) below.

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In addition, we may purchase properties and lease them back to the sellers of such properties. Our advisor will use its best efforts to structure any such sale-leaseback transaction such that the lease will be characterized as a true lease and so that we will be treated as the owner of the property for federal income tax purposes. However, no assurance can be given that the Internal Revenue Service, or the IRS, will not challenge such characterization. In the event that any such sale-leaseback transaction is re-characterized as a financing transaction for federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed or significantly reduced.

Our obligation to close a transaction involving the purchase of a real property asset is generally conditioned upon the delivery and verification of certain documents from the seller or developer, including, where appropriate:

plans and specifications;

environmental reports (generally a minimum of a Phase I investigation);

building condition reports;

surveys;

evidence of marketable title subject to such liens and encumbrances as are acceptable to our advisor;

audited financial statements covering recent operations of real properties having operating histories unless such statements are not required to be filed with the SEC and delivered to stockholders;

title insurance policies; and

liability insurance policies.

In determining whether to purchase a particular property, we may, in circumstances in which our advisor deems it appropriate, obtain an option on such property, including land suitable for development. The amount paid for an option, if any, is normally surrendered if the property is not purchased, and is normally credited against the purchase price if the property is purchased. We may also enter into arrangements with the seller or developer of a property whereby the seller or developer agrees that if, during a stated period, the property does not generate a specified cash flow, the seller or developer will pay to us in cash a sum necessary to reach the specified cash flow level, subject in some cases to negotiated dollar limitations.

We will not purchase or lease properties in which our sponsor, our advisor, our directors or any of their affiliates have an interest without a determination by a majority of our disinterested directors and a majority of our disinterested independent directors that such transaction is fair and reasonable to us and at a price to us no greater than the cost of the property to the affiliated seller or lessor, unless there is substantial justification for the excess amount and the excess amount is reasonable. In no event will we acquire any such property at an amount in excess of its current appraised value as determined by an independent expert selected by our disinterested independent directors.

We intend to obtain adequate insurance coverage for all properties in which we invest. However, there are types of losses, generally catastrophic in nature, for which we do not intend to obtain insurance unless we are required to do so by mortgage lenders. See *Risk Factors* *Risks Related to Investments in Real Estate* *Uninsured losses relating to real estate and lender requirements to obtain insurance may reduce stockholders' returns.*

Joint Venture Investments

We may enter into joint ventures, general partnerships and other arrangements with one or more entities or individuals, including real estate developers, operators, owners, investors and others, some of whom may be affiliates of our advisor, for the purpose of acquiring real estate. Such joint ventures may be leveraged with debt financing or unleveraged. We may enter into joint ventures to further diversify our investments or to access investments which meet our investment criteria that would otherwise be unavailable to us. In

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determining whether to invest in a particular joint venture, our advisor will evaluate the real estate that such joint venture will own or is being formed to own under the same criteria used in the selection of our other properties. However, we will not participate in tenant-in-common syndications or transactions.

Joint ventures with unaffiliated third parties may be structured such that the investment made by us and the co-venturer are on substantially different terms and conditions. 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 co-venturer receiving more of the cash flow, including appreciation, of an investment than we would receive. See **Risk Factors** **Risks Associated with Joint Ventures** 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 only enter into joint ventures with other programs sponsored by Grubb & Ellis, or Grubb Ellis programs, or affiliates of our advisor or any of our directors for the acquisition of properties if:

a majority of our directors, including a majority of the independent directors, approve the transaction as being fair and reasonable to us; and

the investment by us and such affiliate are on substantially the same terms and conditions that are no less favorable than those that would be available to unaffiliated third parties.

Our entering into joint ventures with our advisor or any of its affiliates will result in certain conflicts of interest.

Securities Investments

We may invest in the following types of real estate related securities: (1) equity securities such as the common stock, preferred stock and convertible preferred securities of public or private real estate companies (including other REITs, real estate operating companies and other real estate companies); (2) debt securities such as commercial mortgage-backed securities, or CMBS, commercial mortgages, mortgage loan participations and debt securities issued by other real estate companies; and (3) certain other types of securities that may help us reach our diversification and other investment objectives. These other securities may include, but are not limited to, mezzanine loans, bridge loans, various types of collateralized debt obligations and certain non-U.S. dollar denominated securities.

Our advisor has substantial discretion with respect to the selection of specific securities investments. Our charter provides that we may not invest in equity securities unless a majority of the directors (including a majority of independent directors) not otherwise interested in the transaction approve such investment as being fair, competitive and commercially reasonable. Consistent with such requirements, in determining the types of real estate related securities investments to make, our advisor will adhere to a board-approved asset allocation framework consisting primarily of components such as (1) target mix of securities across a range of risk/reward characteristics, (2) exposure limits to individual securities and (3) exposure limits to securities subclasses (such as common equities, mortgage debt and foreign securities). Within this framework, our advisor will evaluate specific criteria for each prospective real estate related securities investment including:

the position of the overall portfolio to achieve an optimal mix of real property and real estate related securities investments;

diversification benefits relative to the rest of the securities assets within our portfolio;

fundamental securities analysis;

quality and sustainability of underlying property cash flows;

broad assessment of macro economic data and regional property level supply and demand dynamics;

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potential for delivering high current income and attractive risk-adjusted total returns; and

additional factors considered important to meeting our investment objectives.

We are not specifically limited in the number or size of our real estate related securities investments, or on the percentage of the net proceeds from our Offering that we may invest in a single real estate related security or pool of real estate related securities. However, we do not presently intend to invest more than 15.0% of our total assets in securities. The specific number and mix of real estate related securities in which we invest will depend upon real estate market conditions, other circumstances existing at the time we are investing in our real estate related securities and the amount of proceeds we raise in our Offering. We will not invest in securities of other issuers for the purpose of exercising control and the first or second mortgages in which we intend to invest will likely not be insured by the Federal Housing Administration or guaranteed by the Veterans Administration or otherwise guaranteed or insured.

Operating Strategies

Our primary operating strategy is to acquire suitable properties that meet our acquisition standards and to enhance the performance and value of those properties through management strategies designed to address the needs of current and prospective tenants. Our management strategies include:

aggressively leasing available space through targeted marketing augmented, where possible, by our advisor and its affiliates' local asset and property management offices;

controlling operating expenses through the centralization of asset and property management, leasing, marketing, financing, accounting, renovation and data processing activities;

emphasizing regular maintenance and periodic renovation to meet the needs of tenants and to maximize long-term returns; and

financing acquisitions and refinancing properties when favorable terms are available to increase cash flow.

Disposition Strategies

We intend to hold each property or real estate related securities investment we acquire for an extended period. However, circumstances might arise which could result in a shortened holding period for certain investments. In general, the holding period for securities assets is expected to be shorter than the holding period for real property assets. An investment in a property or security may be sold before the end of the expected holding period if:

diversification benefits exist associated with disposing of the investment and rebalancing our investment portfolio;

an opportunity arises to pursue a more attractive investment;

in the judgment of our advisor, the value of the investment might decline;

with respect to properties, a major tenant involuntarily liquidates or is in default under its lease;

the investment was acquired as part of a portfolio acquisition and does not meet our general acquisition criteria;

an opportunity exists to enhance overall investment returns by raising capital through sale of the investment; or

in the judgment of our advisor, the sale of the investment is in our best interests.

The determination of whether a particular property or real estate related securities investment should be sold or otherwise disposed of will be made after consideration of relevant factors, including prevailing economic conditions, with a view towards maximizing our investment objectives. We cannot assure our stockholders that this objective will be realized. The sales price of a property which is net leased will be

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determined in large part by the amount of rent payable under the lease(s) for such property. If a tenant has a repurchase option at a formula price, we may be limited in realizing any appreciation. In connection with our sales of properties we may lend the purchaser all or a portion of the purchase price. In these instances, our taxable income may exceed the cash received in the sale. The terms of payment will be affected by custom in the area in which the investment being sold is located and the then-prevailing economic conditions.

FINANCING POLICIES

We intend to use secured and unsecured debt as a means of providing additional funds for the acquisition of properties and real estate related securities. Our ability to enhance our investment returns and to increase our diversification by acquiring assets using additional funds provided through borrowing could be adversely effected 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 and our real estate related securities combined fair market values, as determined at the end of each calendar year beginning with our first full year of operations. For these purposes, the fair market value of each asset will be equal to the purchase price paid for the asset or, if the asset was appraised subsequent to the date of purchase, then the fair market value will be equal to the value reported in the most recent independent appraisal of the asset. Our policies do not limit the amount we may borrow with respect to any individual investment. As of December 31, 2007, our aggregate borrowings were 58.2% of all of our properties and our real estate related securities combined fair market values.

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 an explanation 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.

In accordance with our charter, a majority of our directors, including a majority of our independent directors, approved our leverage exceeding 300.0% of the value of our net assets in connection with our first four acquisitions of real properties. Our board of directors determined that the excess leverage was justified because it enabled us to purchase the properties during the initial stages of our Offering, thereby improving our ability to meet our goal of acquiring a diversified portfolio of properties to generate current income for stockholders and preserve their capital. As of December 31, 2007, our leverage did not exceed 300.0% of the value of our net assets.

By operating on a leveraged basis, we will have more funds available for our investments. This generally allows us to make more investments than would otherwise be possible, potentially resulting in enhanced investment returns and a more diversified portfolio. However, 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 advisor uses its best efforts to obtain financing on the most favorable terms available to us and 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 of assets owned if all or a portion of the refinancing proceeds are reinvested.

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Our charter restricts us from borrowing money from any of our directors or from our advisor or its affiliates 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 OBJECTIVES AND POLICIES

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 affiliates of our advisor 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 not yet qualified as a REIT. We intend to make the election to be taxed as a REIT, under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, or the Code, when we file our tax return for the taxable year ended December 31, 2007. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90.0% of our ordinary taxable income to stockholders. As a REIT, we generally will not be subject to federal income tax on taxable 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 at regular corporate rates 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 net income and net cash available for distribution to stockholders. Because of our intention to elect REIT status when we file our fiscal year 2007 tax return, we will not benefit from the net loss we incurred for the year ended December 31, 2006.

DISTRIBUTION POLICY

In order to qualify as a REIT, we are required to distribute at least 90.0% of our annual ordinary taxable income to our stockholders. The amount of any cash distributions is determined by our board of directors and depends on the amount of distributable funds, current and projected cash requirements, tax considerations, any limitations imposed by the terms of indebtedness we may incur and other factors. If our investments produce sufficient cash flow, we expect to pay distributions to our stockholders on a monthly basis. Because our cash available for distribution in any year may be less than 90.0% of our taxable income for the year, we may be required to borrow money, use proceeds from the issuance of securities or sell 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, healthcare-related facilities and quality commercial office properties. 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 real estate related securities 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.

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We face competition in leasing available medical office buildings, healthcare-related facilities and quality commercial office properties 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.

Conflicts of interest will exist to the extent that we may acquire properties in the same geographic areas where other Grubb & Ellis programs own the same type of properties. In such a case, a conflict could arise in the leasing of our properties in the event that we and another program managed by Grubb & Ellis or its affiliates were to compete for the same tenants in negotiating leases, or a conflict could arise in connection with the resale of our properties in the event that we and another program managed by Grubb & Ellis or its affiliates were to attempt to sell similar properties at the same time.

In addition, our advisor will seek to reduce conflicts that may arise with respect to properties available for sale or rent by making prospective purchasers or tenants aware of all such properties. However, these conflicts cannot be fully avoided in that our advisor may establish differing compensation arrangements for employees at different properties or differing terms for resales or leasing of the various properties.

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, nor have investigations of our properties been conducted 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

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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, 2007, one of our tenants at our consolidated properties accounted for 10.0% or more of our aggregate annual rental revenue, as follows:

Tenant	2007 Annual Base Rent*	Percentage of 2007 Annual Base Rent	Property	GLA (Square Feet)	Lease Expiration Date
Institute for Senior Living of Florida	\$ 4,095,000	11.2%	East Florida Senior Care Portfolio	355,000	05/31/14

* Annualized rental revenue is based on contractual base rent from leases in effect as of December 31, 2007. The loss of this tenant or their inability to pay rent could have a material adverse effect on our business and results of operations.

GEOGRAPHIC CONCENTRATION

As of December 31, 2007, we owned consolidated properties located in various states as follows:

Property	State (Property Location)	2007 Annual Base Rent *	Percentage of 2007 Annual Base Rent
Thunderbird Medical Plaza	AZ	\$ 1,868,000	5.1%
Tucson Medical Office Portfolio	AZ	1,516,000	4.2
Arizona Sub-total		3,384,000	9.3
Commons V Medical Office Building	FL	1,109,000	3.0
East Florida Senior Care Portfolio	FL	4,095,000	11.2
Florida Sub-total		5,204,000	14.2
Yorktown Medical Center and Shakerag Medical Center	GA	2,405,000	6.6
Gwinnett Professional Center	GA	1,136,000	3.1
Northmeadow Medical Center	GA	1,144,000	3.1

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Georgia Sub-total		4,685,000	12.8
Southpointe Office Parke and Epler Parke I	IN	1,257,000	3.5
Crawfordsville Medical Office Park and Athens Surgery Center	IN	578,000	1.6
Kokomo Medical Office Park	IN	1,319,000	3.7
Indiana Sub-total		3,154,000	8.8
1 and 4 Market Exchange	OH	1,698,000	4.7
Lima Medical Office Portfolio	OH	1,917,000	5.3
Park Place Office Park	OH	1,879,000	5.1
Ohio Sub-total		5,494,000	15.1
St. Mary Physicians Center	CA	1,400,000	3.8
Highlands Ranch Medical Plaza	CO	1,651,000	4.5
The Gallery Professional Building	MN	986,000	2.7
Chesterfield Rehabilitation Center	MO	2,962,000	8.1
2750 Monroe Boulevard	PA	2,623,000	7.2
Lenox Office Park, Building G	TN	2,134,000	5.9
Triumph Hospital Northwest and Triumph Hospital Southwest	TX	2,768,000	7.6
Total		\$ 36,445,000	100%

* Annualized rental revenue is based on contractual base rent from leases in effect as of December 31, 2007.

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EMPLOYEES

We have no employees and our executive officers are all employees of affiliates of our advisor. We cannot determine at this time if or when we might hire any employees, although we do not anticipate hiring any employees for the next twelve months. Our executive officers and key employees of affiliates of our advisor are compensated by affiliates of our advisor and will not receive any compensation from us for their services. However, our executive officers and key employees of affiliates of our advisor will be eligible for awards under our 2006 Incentive Plan. As of December 31, 2007, no awards had been granted to our executive officers or our advisor's key employees under this plan.

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

We internally evaluate all of our properties and interests therein as one industry segment and, accordingly, we do not report segment information.

Item 1A. Risk Factors.

Investment Risks

There is currently no public market for shares of our common stock. Therefore, it will be difficult for our stockholders to sell their shares and, if our stockholders are able to sell their shares, our stockholders will likely sell them at a substantial 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 that 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, our stockholders may only be able to sell them at a substantial discount from the price our stockholders 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, the marketing support fee, due diligence expense reimbursements and organizational and offering expenses. We will also be required to use gross offering proceeds to pay acquisition fees, advisory fees and acquisition expenses. Unless our aggregate investments increase in value to compensate for these up front 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 they paid for our shares. Thus, stockholders should consider their purchase of shares of our common stock as illiquid and a long-term investment, and be prepared to hold their shares for an indefinite length of time.

As of March 25, 2008, we have purchased 25 properties and have only identified two 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 March 25, 2008, we have purchased 25 properties with the net proceeds from our Offering. As of March 25, 2008, we have only identified two additional potential properties to acquire with the net proceeds we will receive from our Offering. Other than these 27 properties, 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

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the transaction terms or other financial or operational data concerning other investment properties or real estate related securities.

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

Our stockholders must rely on our advisor, to evaluate our investment opportunities, and our advisor may not be able to achieve our investment objectives, may make unwise decisions or may make decisions that are not in our best interest because of conflicts of interest. Further, we cannot assure our stockholders that acquisitions of real estate or real estate related securities made using the proceeds of our Offering will produce a return on our investment or will generate cash flow to enable us to make distributions to our stockholders.

We face increasing 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 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 real estate 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, healthcare-related facilities and quality commercial office properties, 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 their shares to us after they have held them for a period of one year or in the event of death or disability, our stockholders should be fully aware that our share repurchase plan contains significant restrictions and limitations. Further, our board of directors may limit, suspend, terminate or amend any provision of the share repurchase plan upon 30 days' notice. Repurchase 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, and (2) 5.0% of the weighted average number of shares outstanding during the prior calendar year. In addition, our stockholders must present at least 25.0% of their shares for repurchase, and until three years following our Offering, repurchases will be made for less than they paid for their shares. Therefore, in making a decision to purchase shares of our common stock, our stockholders 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.

We are conducting a best efforts offering and if we are unable to raise substantial funds, we will be limited in the number and type of investments we may make, which will result in a less diversified portfolio.

Our Offering is being made on a best efforts basis, whereby Grubb & Ellis Securities, Inc., or Grubb & Ellis Securities, or our dealer manager, and the broker-dealers participating in our Offering are only required to use their best efforts to sell our shares and have no firm commitment or obligation to purchase any of the

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shares. If we are unable to raise significant proceeds under our Offering, 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 Offering is a fixed price offering 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 their purchase.

Our Offering is a fixed price offering, which means that our 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. Our board of directors arbitrarily determined our 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 advisor related to its subordinated participation interest in our operating partnership will reduce cash available for distribution to stockholders.

Our advisor holds a subordinated participation interest in our operating partnership, pursuant to which it may be entitled to receive a distribution upon the occurrence of certain events, namely upon dispositions of our assets, the termination or non-renewal of the Advisory Agreement, other than for cause, or the listing of our common stock on a national securities exchange. The distribution payable to our advisor will equal 15.0% of the net proceeds from the sales of properties only after we have made distributions to our stockholders of the total amount raised from our stockholders (less amounts paid to repurchase shares through our share repurchase plan) plus an annual 8.0% cumulative, non-compounded return on average invested capital. Any distributions to our 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 2013, within seven years from the date of our Offering prospectus; however, there can be no assurance 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.

On a limited basis, our stockholders may be able to sell their 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) 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 exchange 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, which is seven years from the effective date of our Offering prospectus. 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 will be used to pay expenses and fees, the full offering price paid by our stockholders will not be invested in real estate investments. As a result, our 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 shares of our common stock on a national securities exchange is substantially in excess of the original purchase price of our assets.

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Risks Relating to Our Business

We have limited prior operating history and there is no assurance that we will be able to successfully achieve our investment objectives.

We have limited prior operating history and we may not be able to achieve our investment objectives. As a result, an investment in shares of our common stock may entail more risks than the shares of our common stock of a REIT with a substantial operating history.

We may suffer from delays in locating suitable investments, which could reduce our ability to make distributions to our stockholders and reduce their return on their investment.

As of March 25, 2008, we have purchased 25 properties and have identified two additional property acquisitions. There may be a substantial period of time before the proceeds of our Offering are invested in suitable investments. Because we are conducting our Offering 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 any 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 to them or that the amount of distributions will increase over time. Should we fail for any reason to distribute at least 90.0% of our REIT taxable income, we would not qualify for the favorable tax treatment accorded to REITs.

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 intend to pay regular cash distributions to stockholders, typically on a monthly basis. 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. During the early stages of our operations, we may not have sufficient cash available from operations to pay distributions. Therefore, we may need to use proceeds from our Offering or borrow funds to make cash distributions in order to maintain our status as a REIT, which may reduce the amount of proceeds available for investment and operations or cause us to incur additional interest expense as a result of borrowed funds. Further, 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.

We may not have sufficient cash available from operations to pay distributions, and, therefore, distributions may be paid with offering proceeds or borrowed funds.

The amount of the distributions 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. On February 14, 2007, our board of directors approved a 7.25% per annum distribution to be paid to stockholders beginning with our February 2007 monthly distribution which was paid in March 2007. For the year ended December 31, 2007, we paid distributions of \$5,996,000 from cash flow from operations of \$7,005,000 for the period. The distributions paid in excess of our cash flow from operations was paid using proceeds from our Offering. As of December 31, 2007, we had an amount payable of \$1,241,000 to our advisor and its affiliates for operating expenses, on-site personnel and engineering payroll, lease commissions

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and asset and property management fees, which will be paid from cash flow from operations in the future as they become due and payable by us in the ordinary course of business consistent with our past practice.

Our advisor and its affiliates have no obligations to defer or forgive amounts due to them. As of December 31, 2007, no amounts due to our advisor or its affiliates have been deferred or forgiven. In the future, if our advisor or its affiliates do not defer or forgive amounts due to them and our cash flow from operations is less than the distributions to be paid, we would be required to pay our distributions, or a portion thereof, with proceeds from our Offering or borrowed funds. As a result, the amount of proceeds available for investment and operations would be reduced, or we may incur additional interest expense as a result of borrowed funds.

In addition, for the year ended December 31, 2007, our funds from operations, or FFO, was \$2,124,000. We paid the \$3,872,000 of distributions in excess of FFO with proceeds from our Offering.

We are uncertain of our sources of debt or equity for funding our future capital needs. If we cannot obtain funding on acceptable terms, our ability to make necessary capital improvements to our properties may be impaired or delayed.

The gross proceeds of our Offering will be used to buy a diversified portfolio of real estate and real estate related securities and to pay various fees and expenses. In addition, to qualify as a REIT, we generally must distribute to our stockholders at least 90.0% of our taxable income each year, excluding capital gains. Because of this distribution requirement, it is not likely that we will be able to fund a significant portion of our future capital needs from retained earnings. We have not identified any sources of debt or equity for future funding, and such sources of funding may not be available to us on favorable terms or at all. If we do not have access to sufficient funding in the future, we may not be able to make necessary capital improvements to our properties, pay other expenses or expand our business.

The recent downturn in the credit markets has increased the cost of borrowing and has made financing difficult to obtain, each of which may have a material adverse effect on our results of operations and business.

Recent events in the financial markets have had an adverse impact on the credit markets and, as a result, the availability of credit has become more expensive and difficult to obtain. Some lenders are imposing more stringent restrictions on the terms of credit and there may be a general reduction in the amount of credit available in the markets in which we conduct business. The negative impact on the tightening of the credit markets may have a material adverse effect on us resulting from, but not limited to, an inability to finance the acquisition of properties on favorable terms, if at all, increased financing costs or financing with increasingly restrictive covenants.

The negative impact of the recent adverse changes in the credit markets on the real estate sector generally or our inability to obtain financing on favorable terms, if at all, may have a material adverse effect on our results of operations and business.

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

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use cash to make other investments, satisfy other obligations or to make distributions to our 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 is dependent on the performance of our advisor.

Our ability to achieve our investment objectives and to pay distributions is dependent upon the performance of our advisor in identifying and advising on the 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 have no opportunity to evaluate the terms of transactions or other economic or financial data concerning our investments that are not described in our Offering prospectus or other periodic filings made with the SEC. We rely entirely on the management ability of our advisor, subject to the oversight of our board of directors. If our advisor suffers or is distracted by adverse financial or operational problems in connection with its operations unrelated to us, our advisor may be unable to allocate time and/or resources to our operations. If our advisor is unable to allocate sufficient resources to oversee and perform our operations for any reason, we may be unable to achieve our investment objectives or to pay distributions to our stockholders. In addition, our success depends to a significant degree upon the continued contributions of our advisor's officers and certain of the officers of our sponsor, who will manage our advisor, including Scott D. Peters and Andrea R. Biller, each of whom would be difficult to replace. We do not have key man life insurance on any of our sponsor's key personnel. If our advisor or our sponsor were to lose the benefit of the experience, efforts and abilities of one or more of these individuals, our operating results could suffer.

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

Our results of operations are subject to the risks of a national economic slowdown or disruption, other changes in national or local economic conditions or changes in tax, real estate, environmental or zoning laws. The following factors may affect income from our properties, our ability to dispose of properties, and yields from our properties:

poor economic times may result in defaults by tenants of our properties and borrowers. We may also be required to provide rent concessions or reduced rental rates to maintain or increase occupancy levels;

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;

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

changes in interest rates and availability of debt financing could render the sale of properties difficult or unattractive;

periods of high interest rates may reduce cash flow from leveraged properties; 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.

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Some or all of the foregoing factors may affect the returns we receive from our investments, our results of operations, our ability to pay distributions to our stockholders or our ability to dispose of our investments.

Our advisor and its affiliates have no obligation to defer or forgive fees or loans or advance any funds to us, which could reduce our ability to make investments or pay distributions.

In the past, our sponsor, or its affiliates have, in certain circumstances, deferred or forgiven fees and loans payable by programs sponsored or managed by our sponsor. Our advisor and its affiliates, including our sponsor, have no obligation to defer or forgive fees owed by us to our advisor or its affiliates or to advance any funds to us. As a result, we may have less cash available to make investments or pay distributions.

The ongoing SEC investigation of Triple Net Properties, LLC could adversely impact our advisor's ability to perform its duties to us.

On September 16, 2004, Triple Net Properties, LLC learned that the SEC Los Angeles Enforcement Division, or the SEC Staff, is conducting an investigation referred to as In the matter of Triple Net Properties, LLC. The SEC Staff has requested information from Triple Net Properties, LLC relating to disclosure in certain public and private securities offerings sponsored by Triple Net Properties, LLC and its affiliates during 1998 through 2004, or the Triple Net securities offerings. The SEC Staff also has requested information from NNN Capital Corp., the dealer manager for the Triple Net securities offerings and the dealer manager for our Offering. The SEC Staff has requested financial and other information regarding the Triple Net securities offerings and the disclosures included in the related offering documents from each of Triple Net Properties and NNN Capital Corp.

Triple Net Properties and NNN Capital Corp., are engaged in settlement negotiations with the SEC staff regarding this matter. The settlement negotiations are continuing, and any settlement negotiated with the SEC staff must be approved by the Commissioners. Since the matter is not concluded, it remains subject to risk that the SEC Staff may seek additional remedies, including substantial fines and injunctive relief that, if obtained, could materially adversely affect our advisor's ability to conduct our Offering. Additionally, any resolution of this matter that reflects negatively on the reputation of Triple Net Properties or NNN Capital Corp., could materially and adversely affect the willingness of potential investors to invest in our Offering. The matters that are subject of this investigation could also give rise to claims against Triple Net Properties by investors in its programs. As this time, Triple Net Properties cannot assess the outcome of the investigation by the SEC. The SEC investigation could adversely impact our advisor's ability to perform its duties to us, because our advisor is controlled by Triple Net Properties.

Risks Related to Conflicts of Interest

We will be subject to conflicts of interest arising out of relationships among us, our officers, our advisor and its affiliates, including the material conflicts discussed below. The Conflicts of Interest section of our Offering prospectus provides a more detailed discussion of these conflicts of interest.

We will compete with our sponsor's other programs for investment opportunities. As a result, our advisor may not cause us to invest in favorable investment opportunities, which may reduce our returns on our investments.

Our sponsor, Grubb & Ellis, or its affiliates have sponsored existing programs with investment objectives and strategies similar to ours, and may sponsor other similar programs in the future. As a result, we may be buying properties at the same time as one or more of our sponsor's other programs managed or advised by affiliates of our advisor. Officers and employees of our advisor may face conflicts of interest in allocating investment opportunities between us and these other programs. For instance, our advisor may select properties for us that provide lower returns

to us than properties that its affiliates select to be purchased by another one of our sponsor's program. We cannot be sure that officers and employees acting for or on behalf of our advisor and on behalf of managers of our sponsor's other programs will act in our best interests when deciding whether to allocate any particular investment to us. We are subject to the risk that as a result of the conflicts

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of interest between us, our advisor and other entities or programs managed by its affiliates, our advisor may not cause us to invest in favorable investment opportunities that our advisor locates when it would be in our best interest to make such investments. As a result, we may invest in less favorable investments, which may reduce our returns on our investments and ability to pay distributions.

The conflicts of interest faced by our officers and our non-independent director may cause us not to be managed solely in the best interests of our stockholders, which may adversely affect our results of operations and the value of their investment.

Some of our officers and our non-independent director are officers of our advisor, Grubb & Ellis Realty Investors, which manages our advisor, our sponsor and other affiliated entities which will receive fees in connection with our Offering and operations. Scott D. Peters is our chief executive officer, president and chairman of the board and also serves as the chief executive officer of our advisor, the chief executive officer, president and a director of our sponsor, chief executive officer of Grubb & Ellis Realty Investors and the chief executive officer, president and chairman of the board of NNN Realty Advisors. As of December 31, 2007, Mr. Peters owns approximately 2.0% of Grubb & Ellis outstanding common stock and he has de minimis ownership in several other programs of our sponsor. Shannon K S Johnson is our chief financial officer and also serves as a financial reporting manager of Grubb & Ellis Realty Investors. Ms. Johnson has de minimis equity ownership in our sponsor and no equity ownership in any of our sponsor's other programs. Andrea R. Biller is our executive vice president and secretary and also serves as the executive vice president of our advisor, the general counsel and executive vice president of Grubb & Ellis Realty Investors, the general counsel, executive vice president and secretary of our sponsor and the general counsel, executive vice president, secretary and a director of NNN Realty Advisors. Ms. Biller owns less than 1.0% of our sponsor's outstanding common stock and she has de minimis ownership in several of our sponsor's other programs. Danny Prosky is our vice president - acquisitions and also serves as the managing director - Health Care Properties of Grubb & Ellis Realty Investors. Mr. Prosky has de minimis equity ownership in our sponsor, no equity ownership in other programs of our sponsor, and 3,000 shares of our common stock. In addition, each of Mr. Peters, Ms. Johnson, Ms. Biller and Mr. Prosky holds options to purchase a de minimis amount of our sponsor's outstanding common stock. As of December 31, 2007, each of Mr. Peters and Ms. Biller own 18.0% membership interests in Grubb & Ellis Healthcare Management, LLC, which owns 25.0% of the membership interest of our advisor.

Some of the other programs of our sponsor in which our officers and non-independent director have invested and to which they provide services, have investment objectives similar to our investment objectives. These individuals have legal and fiduciary obligations to these entities which are similar to those they owe to us and our stockholders. As a result, they may have conflicts of interest in allocating their time and resources between our business and these other activities. During times of intense activity in other programs, the time they devote to our business may decline and be less than we require. If our officers and non-independent director, for any reason, are not able to provide sufficient resources to manage our business, our business will suffer and this may adversely affect our results of operations and the value of our stockholders' investments.

If we enter into joint ventures with affiliates, we may face conflicts of interest or disagreements with our joint venture partners that will not be resolved as quickly or on terms as advantageous to us as would be the case if the joint venture had been negotiated at arm's length with an independent joint venture partner.

In the event that we enter into a joint venture with any other program sponsored or advised by our sponsor or one of its affiliates, we may face certain additional risks and potential conflicts of interest. For example, securities issued by the other programs sponsored by Grubb & Ellis may never have an active trading market. Therefore, if we were to become listed on a national securities exchange, we may no longer have similar goals and objectives with respect to the resale of properties in the future. Joint ventures between us and other Grubb & Ellis programs will not have the benefit of arm's length negotiation of the type normally conducted between unrelated co-venturers. Under these joint

venture agreements, none of the co-venturers may have the power to control the venture, and an impasse could occur regarding matters

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pertaining to the joint venture, including the timing of a liquidation, which might have a negative impact on the joint venture and decrease returns to our stockholders.

Our advisor will face conflicts of interest relating to its compensation structure, which could result in actions that are not necessarily in the long-term best interests of our stockholders.

Under the Advisory Agreement between us, our operating partnership, our advisor and Grubb & Ellis Realty Investors and pursuant to the subordinated participation interest our advisor holds in our operating partnership, our advisor is entitled to fees and distributions that are structured in a manner intended to provide incentives to our advisor to perform in our best interests and in the best interests of our stockholders. The fees our advisor is entitled to include, acquisition fees, asset management fees, property management fees and disposition fees. The distributions our advisor may become entitled to receive would be payable upon distribution of net sales proceeds to our stockholders, the listing of our shares or the termination of the Advisory Agreement, other than for cause. However, because our advisor does not maintain a significant equity interest in us and is entitled to receive substantial minimum compensation regardless of performance, our advisor's interests are not wholly aligned with those of our stockholders. In that regard, our advisor receives an asset management fee with respect to the ongoing operation and management of properties based on the amount of our initial investment and not the performance of those investments, which could result in our advisor not having adequate incentive to manage our portfolio to provide profitable operations during the period we hold our investments. On the other hand, our advisor could be motivated to recommend riskier or more speculative investments in order to increase the fees payable to our advisor or for us to generate the specified levels of performance or net sales proceeds that would entitle our advisor to fees or distributions.

The distribution payable to our advisor upon termination of the Advisory Agreement may influence decisions about terminating our advisor or our acquisition or disposition of investments.

Our advisor's entitlement to fees upon the sale of our assets and to participate in net sales proceeds could result in our advisor recommending sales of our investments at the earliest possible time at which sales of investments would produce the level of return which would entitle our advisor to compensation relating to such sales, even if continued ownership of those investments might be in the best long-term interest of our stockholders. The subordinated participation interest may require our operating partnership to make a distribution to our advisor upon termination of the Advisory Agreement, other than for cause, if our advisor meets the performance thresholds included in our operating partnership's limited partnership agreement. This distribution will not be paid if we terminate the Advisory Agreement after the listing of our shares. To avoid making this distribution, our independent directors may decide against terminating the Advisory Agreement prior to our listing of our shares even if, but for the requirement to make this distribution, termination of the Advisory Agreement would be in the best interest of our stockholders. In addition, the requirement to make this distribution could cause our independent directors to make different investment or disposition decisions than they would otherwise make, in order to satisfy our obligation to the terminated advisor.

We have and may continue to acquire assets from, or dispose of assets to, affiliates of our advisor, which could result in us entering into transactions on less favorable terms than we would receive from a third party or that negatively affect the public's perception of us.

We may acquire assets from affiliates of our advisor. Further, we may also dispose of assets to affiliates of our advisor. Affiliates of our advisor may make substantial profits in connection with such transactions and may owe fiduciary and/or other duties to the selling or purchasing entity in these transactions, and conflicts of interest between us and the selling or purchasing entities could exist in such transactions. Because our independent directors would rely on our advisor in identifying and evaluating any such transaction, these conflicts could result in transactions based on terms that are less favorable to us than we would receive from a third party. Also, the existence of conflicts, regardless of how they are resolved, might negatively affect the public's perception of us.

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The fees we pay our advisor under the Advisory Agreement and the distributions payable to our advisor under our operating partnership agreement were not determined on an arm's-length basis and therefore may not be on the same terms as those we could negotiate with an unrelated party.

Our independent directors relied on information and recommendations provided by our advisor to determine the fees and distributions payable to our advisor and its affiliates under the Advisory Agreement and pursuant to the subordinated participation interest in our operating partnership. As a result, these fees and distributions cannot be viewed as having been determined on an arm's-length basis and we cannot assure our stockholders that an unaffiliated party would not be willing and able to provide to us the same services at a lower price.

Risks Associated with 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 issued pursuant to our Offering.

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 stockholder 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 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 incumbent management.

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 their ability to sell their shares of our common stock.

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

Our charter permits our board of directors to 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.

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Maryland law and our organizational documents limit our stockholders' rights 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 interest, 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, our officers, our advisor and its affiliates 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 or hold harmless our directors, our advisor and its affiliates unless they have determined that the course of conduct that caused the loss or liability was in our best interests, they were acting on our behalf or performing services for us, the liability was not the result of negligence or misconduct by our non-independent directors, our advisor and its affiliates or gross negligence or willful misconduct by our independent directors, and the indemnification 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 were 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 common stock, which we refer to as an interested stockholder;

an affiliate of ours who, at any time within the two-year period prior to the date in question, was 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 common stock and two-thirds of the votes entitled to be cast by holders of shares of our common stock other than shares held by 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 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;

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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, in order to maintain our exemption from 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 our Offering ends. If we are unable to invest a significant portion of the proceeds of our Offering in properties within one year of the termination of our 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 their 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, our advisor may be required to impose limitations on our investment activities. In particular, our advisor 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, our advisor will monitor our investments in real estate related securities 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, our advisor may be required to limit the percentage of our assets represented by real estate related securities.

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 advisor and its affiliates, 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.

Dilution and our Operating Partnership

Several potential events could cause the fair market and book value of our common stock to decline.

The value of our common stock could be diluted by a number of factors, including:

future offerings of our securities, including issuances under the DRIP 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.

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Our advisor may receive economic benefits from its status as a special limited partner without bearing any of the investment risk.

Our advisor is a special limited partner in our operating partnership. The special limited partner is entitled to receive an incentive distribution equal to 15.0% of net sales proceeds of properties after we have received and paid to our stockholders a return of their invested capital and an 8.0% annual cumulative, non-compounded return. We bear all of the risk associated with the properties but, as a result of the incentive distributions to our advisor, we are not entitled to all of our operating partnership's proceeds from a property sale.

Our Seller Financing may Delay Liquidation or Reinvestment

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, our 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, our ability to pay distributions to our stockholders or reduce the value of their investment.

If we acquire real estate at a time when the real estate market is experiencing substantial influxes of capital investment and competition for income producing properties, the real estate investments we make may not appreciate or may decrease in value.

If the real estate market is experiencing a substantial influx of capital from investors, this substantial flow of capital, combined with significant competition for income producing real estate, may result in inflated purchase prices for such assets. To the extent we purchase real estate in such an environment, we are subject to the risk that if the real estate market ceases to attract the same level of capital investment in the future as it is currently attracting, or if the

number of companies seeking to acquire such assets decreases, the value of our investment may not appreciate or may decrease significantly below the amount we paid for such investment.

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Competition with third parties in acquiring properties and other investments may reduce our profitability and our stockholders may experience a lower return on their investment.

We compete with many other entities engaged in real estate investment activities, including individuals, corporations, bank and insurance company investment accounts, pension funds, other REITs, real estate limited partnerships, and foreign investors, many of which have greater resources than we do. Many of these entities 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 investments may increase. As such, competition with third parties would result in increased demand for these assets and therefore increased prices paid for them. If we pay higher prices for properties and other investments, our profitability will be reduced and our stockholders may experience a lower return on 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 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.

Long-term leases may not result in fair market lease rates over time; therefore, our income and our distributions to our stockholders could be lower than if we did not enter into long-term leases.

We may enter into long-term leases with tenants of certain of our properties. Our long-term leases would likely provide for rent to increase over time. However, if we do not accurately judge the potential for increases in market rental rates, we may set the terms of these long-term leases at levels such that even after contractual rental increases the rent under our long-term leases is less than then-current market rental rates. Further, we may have no ability to terminate those leases or to adjust the rent to then-prevailing market rates. As a result, our income and distributions to our stockholders could be lower than if we did not enter into in long-term leases.

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.

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We may be unable to secure funds for future tenant or other capital improvements, which could limit our ability to attract or replace tenants and decrease stockholders' return on investment.

When tenants do not renew their leases or otherwise vacate their space, it is common that, in order to attract replacement tenants, we will be required to expend substantial funds for tenant improvements and leasing commissions related to the vacated space. Such tenant improvements may require us to incur substantial capital expenditures. If we have not established capital reserves for such tenant or other capital improvements, we will have to obtain financing from other sources and we have not identified any sources for such financing. We may also have future financing needs for other capital improvements to refurbish or renovate our properties. If we need to secure financing sources for tenant improvements or other capital improvements in the future, but are unable to secure such financing or are unable to secure financing on terms we feel are acceptable, we may be unable to make tenant and other capital improvements or we may be required to defer such improvements. If this happens, it may cause one or more of our properties to suffer from a greater risk of obsolescence or a decline in value, or a greater risk of decreased cash flow as a result of fewer potential tenants being attracted to the property or existing tenants not renewing their leases. If we do not have access to sufficient funding in the future, we may not be able to make necessary capital improvements to our properties, pay other expenses or pay distributions to our stockholders.

Uninsured losses relating to real estate and lender requirements to obtain insurance may reduce stockholders' 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 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 our 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.

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 to stockholders.

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Dramatic increases in insurance rates could adversely affect our cash flow and our ability to make distributions to our stockholders.

Due to recent natural disasters resulting in massive property destruction, prices for property insurance coverage have been increasing dramatically. We cannot assure that we will be able to obtain insurance premiums at reasonable rates. As a result, our cash flow could be adversely impacted by increased premiums which could adversely affect our ability to make distributions to 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 stockholders' returns. Where properties are acquired prior to the start of construction 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 our advisor determines that a sale or other disposition appears to be advantageous to achieve our investment objectives. Our advisor, subject to the oversight of our board of directors, may exercise its 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 stockholders that we will be able to sell our properties at a profit in the future. 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.

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 our 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

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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 real estate investments may be concentrated in medical office or other healthcare-related facilities, making us more vulnerable economically than if our investments were diversified.

As a REIT, we invest primarily in real estate. Within the real estate industry, we intend primarily to acquire or selectively develop and own medical office buildings, healthcare-related facilities and quality commercial office properties. We are subject to risks inherent in concentrating investments in real estate. These risks resulting from a lack of diversification become even greater as a result of our business strategy to invest to a substantial degree in healthcare-related facilities.

A downturn in the commercial real estate industry generally could significantly adversely affect the value of our properties. A downturn in the healthcare industry could negatively affect our lessees' ability to make lease payments to us and our ability to make distributions to our stockholders. These adverse effects could be more pronounced than if we diversified our investments outside of real estate or if our portfolio did not include a substantial concentration in medical office buildings and healthcare-related facilities.

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 will 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.

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Our costs associated with complying with the ADA 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 will 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, be 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

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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 Relating 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 new laws or regulations, 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.

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Some of our 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.

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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 are 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.

Risks Related to Investments in Real Estate Related Securities

We do not have substantial experience in acquiring mortgage loans or investing in real estate related securities, which may result in our real estate related securities investments failing to produce returns or incurring losses.

None of our officers or the management personnel of our advisor have any substantial experience in acquiring mortgage loans or investing in the real estate related securities in which we may invest. We may make such investments to the extent that our advisor, in consultation with our board of directors, determines that it is advantageous for us to do so. Our and our advisor's lack of expertise in making real estate related securities investments may result in our real estate related securities investments failing to produce returns or incurring losses, either of which would reduce our ability to make distributions to our stockholders.

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 real estate related assets and are subject to the inherent risks associated with real estate related investments, including risks relating to rising interest rates.

The mortgage loans in which we may invest and the mortgage loans underlying the mortgage-backed securities in which we may invest may be impacted by unfavorable real estate market conditions, which could decrease their value.

If we make investments in mortgage loans or mortgage-backed securities, 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

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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. 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 real estate securities investments 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.

The collateralized mortgage-backed securities in which we may invest are subject to several types of risks.

CMBS are bonds which evidence interests in, or are secured by, a single commercial mortgage loan or a pool of commercial mortgage loans. Accordingly, the mortgage-backed securities we may invest in are subject to all the risks of the underlying mortgage loans.

In a rising interest rate environment, the value of CMBS may be adversely affected when payments on underlying mortgages do not occur as anticipated, resulting in the extension of the security's effective maturity and the related increase in interest rate sensitivity of a longer-term instrument. The value of CMBS may also change due to shifts in the market's perception of issuers and regulatory or tax changes adversely affecting the mortgage securities markets as a whole. In addition, CMBS are subject to the credit risk associated with the performance of the underlying mortgage properties. In certain instances, third party guarantees or other forms of credit support can reduce the credit risk.

CMBS are also subject to several risks created through the securitization process. Subordinate CMBS are paid interest only to the extent that there are funds available to make payments. To the extent the collateral pool includes a large percentage of delinquent loans, there is a risk that interest payment on subordinate CMBS will not be fully paid. Subordinate securities of CMBS are also subject to greater credit risk than those CMBS that are more highly rated.

The mezzanine loans in which we may invest would involve greater risks of loss than senior loans secured by income-producing real properties.

We may invest in mezzanine loans that take the form of subordinated loans secured by second mortgages on the underlying real property or loans secured by a pledge of the ownership interests of either the entity owning the real property or the entity that owns the interest in the entity owning the real property. These types of investments involve a higher degree of risk than long-term senior mortgage lending secured by income producing real property because the investment may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy our mezzanine loan. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt. As a result, we may not recover some or all of our investment. In addition, mezzanine loans may have higher loan to value ratios than conventional mortgage loans, resulting in less equity in the

real property and increasing the risk of loss of principal.

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We expect a portion of our real estate related securities investments 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 real estate related securities 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. The mezzanine and bridge loans we may purchase will be particularly illiquid investments due to their short life, their unsuitability for securitization and the greater difficulty of recoupment in the event of a borrower's default.

Interest rate and related risks may cause the value of our real estate related securities investments 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 real estate related securities investments.

If we liquidate prior to the maturity of our real estate securities investments, 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 real estate related securities investments. If we liquidate those investments prior to their maturity, we may be forced to sell those investments on unfavorable terms or at a 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 Associated with 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 stockholders' investments.

We have and intend to continue to finance a portion of the purchase price of our investments in real estate and real estate related securities 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 real estate related securities' 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. 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-case reserves, less total liabilities. Generally speaking, the preceding calculation is expected to approximate 75.0% of the sum of (a) the aggregate cost of our real property investments before

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non-cash reserves and depreciation and (b) the aggregate cost of our investments in real estate related securities. 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 REIT 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 stockholders' investments. 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 finance the 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.

To the extent we borrow at fixed rates or enter into fixed interest rate swaps we will not benefit from reduced interest expense if interest rates decrease.

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. 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, we may borrow at fixed rates or variable rates depending upon prevailing market conditions. We may also enter into derivative financial instruments

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such as interest rate swaps and caps in order to mitigate our interest rate risk on a related financial instrument. To the extent we borrow at fixed rates or enter into fixed interest rate swaps we will not benefit from reduced interest expense if interest rates decrease.

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, discontinue insurance coverage, or replace our advisor. These or other limitations may adversely affect our flexibility and our ability to achieve our investment objectives.

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 our 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 our 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 investments.

Risks Associated with Joint Ventures

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

In connection with the purchase of real estate, we have and may continue to enter into joint ventures with third parties, including affiliates of our advisor. 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.

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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.

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 a joint venture agreement, 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 co-venturer 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 intend to qualify as a REIT for federal income tax purposes commencing with the taxable year ended December 31, 2007, but as of March 25, 2008, we are not qualified as a REIT. Our qualification as a REIT will depend on our ability to 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 the Internal Revenue Service, or IRS, that we qualify as a REIT, we have received an opinion of our counsel that, based on certain assumptions and representations, we will so qualify. Our stockholders should be aware, however, that 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 existing law and therefore could be subject to modification or withdrawal based on future legislative, judicial or administrative changes to the federal income tax laws, any of which could be applied retroactively. 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 described herein.

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

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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 our stockholders because of the additional tax liability. In addition, distributions to our 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 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 (including our Offering), 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 real estate investment trust 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) 100.0% 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 (including our Offering) 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.

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

If our stockholders participate in the DRIP, 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, they 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

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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 100.0% 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 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 our stockholders to consult with their own tax advisor

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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.

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 our stockholders fail to meet the fiduciary and other standards under the Employee Retirement Income Security Act of 1974, or ERISA, or the 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 our stockholders 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 their investment is consistent with the applicable provisions of ERISA and the Code, or any other applicable governing authority in the case of a government plan;

whether their investment is made in accordance with the documents and instruments governing their plan or IRA, including their plan's investment policy;

whether their investment satisfies the prudence and diversification requirements of Sections 404(a)(1)(B) and 404(a)(1)(C) of ERISA;

whether their investment will impair the liquidity of the plan or IRA;

whether their investment will produce unrelated business taxable income, referred to as UBTI and as defined in Sections 511 through 514 of the Code, to the plan or IRA; and

the need to value the assets of the plan annually in accordance with ERISA and the Code.

In addition to considering their fiduciary responsibilities under ERISA and the prohibited transaction rules of ERISA and the 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 stockholders that those provisions in our charter will be effective in limiting benefit plan investor ownership to less than the 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 investors plan or IRA, an investor should not purchase shares unless an administrative or statutory exemption applies to an investor purchase.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

As of December 31 2007, we have not entered into any leases for our principal executive offices located at 1551 N. Tustin Avenue, Suite 300, Santa Ana, California 92705. We do not have an address separate from our advisor, Grubb & Ellis Realty Investors, or our sponsor Grubb & Ellis. Since we pay our advisor fees for its services, we do not pay rent for the use of its space.

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As of December 31, 2007, we owned 20 properties, 15 of which are medical office buildings, three of which are healthcare-related facilities, and two of which are quality commercial office properties, with an aggregate GLA of 2,233,000 square feet.

The following table presents certain additional information about our properties as of December 31, 2007:

							% Total of Annual Rent	Physical Occupancy	
	Property Location	GLA (Sq Ft)	% of GLA	% Owned	Date Acquired	Annual Rent (1)			
ville									
Office Park Surgery	Crawfordsville, IN	29,000	1.3%	100%	01/22/07	\$ 578,000	1.6%	100%	\$
Office Center I	Indianapolis, IN	97,000	4.3	100%	01/22/07	1,257,000	3.5	87.1	
Building e Park,	St. Paul, MN	105,000	4.7	100%	03/09/07	986,000	2.7	58.9	
	Memphis, TN	98,000	4.4	100%	03/23/07	2,134,000	5.9	100	
Medical Building Medical	Naples, FL	55,000	2.5	100%	04/24/07	1,109,000	3.0	100	
g Medical	Peachtree City/Fayetteville, GA	115,000	5.1	100%	05/02/07	2,405,000	6.6	85.1	
Medical	Glendale, AZ	112,000	5.0	100%	05/15/07	1,868,000	5.1	72.8	
ospital									
n Hospital	Sugarland/Houston, TX	151,000	6.7	100%	06/08/07	2,768,000	7.6	100	
Professional	Lawrenceville, GA	60,000	2.7	100%	07/27/07	1,136,000	3.1	80.7	
ket	Columbus, OH	116,000	5.2	100%	08/15/07	1,698,000	4.7	92.6	
Medical	Kokomo, IN	87,000	3.9	100%	08/30/07	1,319,000	3.7	98.2	
Physicians	Long Beach, CA	67,000	3.0	100%	09/05/07	1,400,000	3.8	85.7	
e	Valley Forge, PA	109,000	4.9	100%	09/10/07	2,623,000	7.2	100	
Senior	Jacksonville, Sunrise, Winter, FL	355,000	15.9	100%	09/28/07	4,095,000	11.2	100	

Low Center Medical Portfolio Medical Office	Roswell, GA	51,000	2.3	100%	11/15/07	1,144,000	3.1	93.1
	Tucson, AZ	111,000	5.0	100%	11/20/07	1,516,000	4.2	64.3
	Lima, OH	188,000	8.4	100%	12/07/07	1,917,000	5.3	79.6
Branch Highland Office	Highland Ranch, CO	82,000	3.8	100%	12/19/07	1,651,000	4.5	83.2
	Dayton, OH	133,000	5.9	100%	12/20/07	1,879,000	5.1	82.0
on Center	Chesterfield, MO	112,000	5.0	80.0%	12/20/07	2,962,000	8.1	100
Weighted Avg		2,233,000	100%			\$ 36,445,000	100%	88.6%

(1) Annualized rental revenue is based on contractual base rent from leases in effect as of December 31, 2007.

(2) Average annual rent per occupied square foot as of December 31, 2007.

We own fee simple interests in all of our properties except: (1) Lenox Office Park, Building G, (2) Tucson Medical Office Portfolio, and (3) Lima Medical Office Portfolio. Lenox Office Park, Building G is comprised of both Lenox Office Park, Building G, in which we hold a leasehold interest, and two vacant parcels of land, in which we own a fee simple interest. Tucson Medical 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. 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.

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.

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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, 2007.

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)
2008	45	107,000	5.6%	\$ 2,003,000	5.3%
2009	54	118,000	6.1	2,437,000	6.4
2010	49	236,000	12.2	4,855,000	12.8
2011	45	253,000	13.1	5,569,000	14.7
2012	68	326,000	16.9	6,123,000	16.1
2013	33	225,000	11.7	4,056,000	10.7
2014	10	378,000	19.6	5,197,000	13.7
2015	19	25,000	1.3	308,000	0.8
2016	7	42,000	2.2	1,122,000	3.0
2017	12	84,000	4.4	1,550,000	4.0
Thereafter	4	133,000	6.9	4,734,000	12.5
Total	346	1,927,000	100%	\$ 37,954,000	100%

(1) The annual rent percentage is based on the total annual contractual base rent as of December 31, 2007, which, in addition to leases with scheduled expirations as included in this table, includes certain tenants that have leases extended on a monthly basis.

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, 2007.

State	No. of Properties	GLA (Square Feet)	% of GLA	2007 Annual Base Rent *	Percentage of 2007 Annual Base Rent
Arizona	2	223,000	10.0%	\$ 3,384,000	9.3%

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California	1	67,000	3.0	1,400,000	3.8
Colorado	1	82,000	3.8	1,651,000	4.5
Florida	2	410,000	18.4	5,204,000	14.2
Georgia	3	226,000	10.1	4,685,000	12.8
Indiana	3	213,000	9.5	3,154,000	8.8
Minnesota	1	105,000	4.7	986,000	2.7
Missouri	1	112,000	5.0	2,962,000	8.1
Ohio	3	437,000	19.5	5,494,000	15.1
Pennsylvania	1	109,000	4.9	2,623,000	7.2
Tennessee	1	98,000	4.4	2,134,000	5.9
Texas	1	151,000	6.7	2,768,000	7.6
Total	20	2,233,000	100%	\$ 36,445,000	100%

* Annualized rental revenue is based on contractual base rent from leases in effect as of December 31, 2007.

Indebtedness

As of December 31, 2007, we had mortgage loan payables outstanding on 16 of our consolidated properties, representing aggregate indebtedness in the principal amount of \$185,899,000 (\$185,801,000, net of discount) consisting of (1) \$90,919,000 (\$90,821,000, net of discount), or 48.9%, of fixed rate debt at a weighted-average interest rate of 5.79% per annum and (2) \$94,980,000, or 51.1%, of variable rate debt at a weighted-average interest rate of 6.35% per annum. We had fixed rate interest rate swaps on all of our variable rate mortgage loan payables, thereby effectively fixing our interest rate on those mortgage loan payables. In addition, as of December 31, 2007, we had \$51,801,000 outstanding under our secured revolving

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line of credit with LaSalle and KeyBank at a weighted-average interest rate of 6.93% per annum. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Note 6 to Consolidated Financial Statements, Mortgage Loan Payables and Unsecured Note Payables to Affiliate, Note 7 to Consolidated Financial Statements, Derivative Financial Instruments, and Note 8 to Consolidated Financial Statements, Line of Credit for a further discussion.

Item 3. Legal Proceedings.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during the fourth quarter of 2007.

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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.

Stockholders

As of March 14, 2008, we had 7,684 stockholders of record.

Distributions

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

The amount of the distributions 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 Code.

We have, and intend to continue to make distributions each taxable year equal to at least 90.0% of our taxable income. One of our primary goals is to pay regular monthly distributions to our stockholders. We expect to calculate our monthly distributions based upon daily record and distribution declaration dates so stockholders may be entitled to distributions immediately upon purchasing our shares.

If distributions are in excess of our taxable income, such distributions will result in a return of capital to our stockholders.

For the year ended December 31, 2007, we paid distributions of \$5,996,000 from cash flow from operations of \$7,005,000 for the period. The distributions paid in excess of our cash flow from operations was paid using proceeds from our Offering. As of December 31, 2007, we had an amount payable of \$1,241,000 to our advisor and its affiliates for operating expenses, on-site personnel and engineering payroll, lease commissions and asset and property management fees, which will be paid from cash flow from operations in the future as they become due and payable by us in the ordinary course of business consistent with our past practice.

Our advisor and its affiliates have no obligations to defer or forgive amounts due to them. As of December 31, 2007, no amounts due to our advisor or its affiliates have been deferred or forgiven. In the future, if our advisor or its affiliates do not defer or forgive amounts due to them and our cash flow from operations is less than the distributions to be paid, we would be required to pay our distributions, or a portion thereof, with proceeds from our Offering or borrowed funds. As a result, the amount of proceeds available for investment and operations would be reduced, or we may incur additional interest expense as a result of borrowed funds.

In addition, for the year ended December 31, 2007, our FFO was \$2,124,000. We paid the \$3,872,000 of distributions in excess of FFO with proceeds from our Offering.

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.

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Use of Public Offering Proceeds

On September 20, 2006, we commenced our Offering in which we are offering up to 200,000,000 shares of our common stock for \$10.00 per share and 21,052,632 shares of our common stock pursuant to our DRIP, at \$9.50 per share, aggregating up to \$2,200,000,000. The shares offered in the Offering have been registered with the SEC on a Registration Statement on Form S-11 (File No. 333-133652) under the Securities Act of 1933, which was declared effective by the SEC on September 20, 2006. The Offering will terminate no later than September 20, 2009.

As of December 31, 2007, we had received and accepted subscriptions for 21,130,370 shares of our common stock, or \$211,046,000. As of December 31, 2007, a total of \$2,673,000 in distributions were reinvested and 281,381 shares were issued under the DRIP.

As of December 31, 2007, we have incurred marketing support fees of \$5,267,000, selling commissions of \$14,568,000 and due diligence expense reimbursements of \$115,000. We have also incurred organizational and offering expenses of \$3,170,000. Such fees and reimbursements are charged to stockholders' equity (deficit) as such amounts are reimbursed from the gross proceeds of our Offering. The ratio of the cost of raising funds in our Offering to the funds raised is 88.5%.

As of December 31, 2007, we have used \$179,842,000 in offering proceeds to purchase our 20 properties and repay debt incurred in connection with such acquisitions.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

No share repurchases were made for the year ended December 31, 2007. The share repurchase plan allows for share repurchases by us when certain criteria are met by stockholders. Share repurchases are made at the sole discretion of our board of directors. Funds for the repurchase of shares will come exclusively from the proceeds we receive from the sale of shares under the DRIP.

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The following should be read with Item 1A. Risk Factors and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation 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 of this annual report on Form 10-K.

Selected Financial Data	December 31, 2007	December 31, 2006	April 28, 2006 (Date of Inception)
BALANCE SHEET DATA:			
Total assets	\$ 431,612,000	\$ 385,000	\$ 202,000
Mortgage loan payables, net	\$ 185,801,000	\$	\$
Stockholders' equity (deficit)	\$ 175,590,000	\$ (189,000)	\$ 2,000
		Year Ended	Period from April 28,
		December 31, 2007	2006 (Date of Inception) through December 31, 2006
STATEMENT OF OPERATIONS DATA:			
Total revenues	\$	17,626,000	\$
Loss from continuing operations	\$	(7,666,000)	\$ (242,000)
Net loss	\$	(7,666,000)	\$ (242,000)
Loss per common share - basic and diluted(1):			
Loss from continuing operations	\$	(0.77)	\$ (149.03)
Net loss	\$	(0.77)	\$ (149.03)
STATEMENT OF CASH FLOW DATA:			
Cash flows provided by operating activities	\$	7,005,000	\$
Cash flows used in investing activities	\$	385,440,000	\$
Cash flows provided by financing activities	\$	383,700,000	\$ 202,000
OTHER DATA:			
Distributions declared	\$	7,250,000	\$
Distributions declared per share	\$	0.70	\$
Funds from operations(2)	\$	2,124,000	\$ (242,000)

(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 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) One of our objectives is to provide cash distributions to our stockholders from cash generated by our 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 accounting principles generally accepted in the United States of America, or GAAP.

We define FFO, a non-GAAP measure, consistent with the standards established by the White Paper on FFO approved by the Board of Governors of NAREIT, as revised in February 2004. The White Paper defines FFO as net income or loss computed in accordance with GAAP, excluding gains or losses from sales of property but including asset impairment writedowns, plus depreciation and amortization, and after adjustments for

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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 with other REITs may not be meaningful. 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 performance. Our FFO reporting complies with NAREIT's policy described above.

For additional information, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Funds from Operations, which includes a reconciliation of our GAAP net income available to stockholders to FFO for the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006.

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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 Grubb & Ellis Healthcare REIT, Inc. and its subsidiaries, including Grubb & Ellis Healthcare REIT Holdings, L.P., except where the context otherwise requires.

The following discussion should be read in conjunction with our 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, 2007 and 2006, together with our results of operations and cash flows for the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006.

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 words believe, expect, intend, anticipate, estimate, project, prospects, or similar expressions. 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; 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; the availability of financing; our ongoing relationship with Grubb & Ellis Company, or Grubb & Ellis, or our sponsor, and its affiliates; and litigation, including without limitation, the investigation of Grubb & Ellis Realty Investors, LLC, or Grubb & Ellis Realty Investors (formerly known as Triple Net Properties, LLC), by the Securities and Exchange Commission, or the SEC. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Additional information concerning us and our business, including additional factors that could materially affect our financial results, is included herein and in our other filings with the SEC.

Overview and Background

Grubb & Ellis Healthcare REIT, Inc. (formerly known as NNN Healthcare/Office REIT, Inc.), a Maryland corporation, was incorporated on April 20, 2006. We were initially capitalized on April 28, 2006 and therefore we consider that our date of inception. We provide stockholders the potential for income and growth through investment in a diversified portfolio of real estate properties, focusing primarily on medical office buildings, healthcare-related facilities and quality commercial office properties. We may also invest in real estate related securities. We focus primarily on investments that produce current income. We intend to elect to be treated as a REIT for federal income tax purposes for our taxable year ended December 31, 2007 when we file our fiscal year 2007 tax return.

We are conducting a best efforts initial public offering, or our Offering, in which we are offering up to 200,000,000 shares of our common stock for \$10.00 per share and 21,052,632 shares of our common stock pursuant to our distribution reinvestment plan, or the DRIP, at \$9.50 per share, aggregating up to \$2,200,000,000. As of

March 14, 2008, we had received and accepted subscriptions in our Offering for 25,933,558 shares of our common stock, or \$259,042,000, excluding shares issued under the DRIP.

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We conduct substantially all of our operations through Grubb & Ellis Healthcare REIT Holdings, L.P. (formerly known as NNN Healthcare/Office REIT Holdings, L.P.), or our operating partnership. We are externally advised by Grubb & Ellis Healthcare REIT Advisor, LLC (formerly known as NNN Healthcare/Office REIT Advisor, LLC), or our advisor, pursuant to an advisory agreement, or the Advisory Agreement, between us, our advisor and Grubb & Ellis Realty Investors, who is the managing member of our advisor. The Advisory Agreement had a one-year term that expired on September 19, 2007 and was subject to successive one-year renewals upon the mutual consent of the parties. On September 18, 2007, our board of directors extended the Advisory Agreement on a month-to-month basis. On October 24, 2007, our board of directors authorized the renewal of our Advisory Agreement for a term of one year ending on October 24, 2008. Our advisor supervises and manages our day-to-day operations and selects the properties and securities we acquire, subject to the oversight by our board of directors. Our advisor also provides marketing, sales and client services on our behalf. Our advisor is affiliated with us in that we and our advisor have common officers, some of whom also own an indirect equity interest in our advisor. Our advisor engages affiliated entities, including Triple Net Properties Realty, Inc., or Realty, to provide various services to us, including property management services.

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

As of December 31, 2007, we had purchased 20 properties comprising 2,233,000 square feet of gross leasable area, or GLA.

Business Strategies

We will continue to invest in a diversified portfolio of real estate, focusing primarily on investments that produce current income. Our real estate investments focus on medical office buildings, healthcare-related facilities and quality commercial office properties. We may also invest in real estate related securities. However, we do not presently intend to invest more than 15.0% of our total assets in real estate related securities. Our real estate related securities investments will generally focus on common and preferred stock of public or private real estate companies, collateralized mortgage-backed securities, other forms of mortgage debt and certain other securities, including collateralized debt obligations and foreign 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 real estate related securities.

In addition, when and as determined appropriate by our advisor, 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 advisor will make 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 current income and capital appreciation upon the ultimate sale of properties.

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For each of our investments, regardless of property type, our advisor seeks to ensure that we 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; and Supply and Demand. We focus on local or regional markets which have potential for stable and growing property level cash flow over the long-term. These determinations will be based in part on an evaluation of local economic, demographic and regulatory factors affecting the property. For instance, we will 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 and stringent zoning restrictions. In addition, we will 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 will 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.

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 will depend 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.

Acquisitions in 2007

Affiliate Acquisitions

As a result of acquiring the NNN Southpointe, LLC, NNN Crawfordsville, LLC, NNN Gallery Medical, LLC, NNN Lenox Medical, LLC and NNN Lenox Medical Land, LLC membership interests from affiliates, as described below, an independent appraiser was engaged to value the properties and the transactions were approved and determined by a majority of our board of directors, including a majority of our independent directors, as fair and reasonable to us, and at prices no greater than the cost of the investments to our affiliate or the properties' appraised values.

Southpointe Office Parke and Epler Parke I Indianapolis, Indiana

On January 22, 2007, we acquired all of the membership interests of NNN Southpointe, LLC from an affiliate, for a total purchase price of \$14,800,000, plus closing costs. NNN Southpointe, LLC has fee simple ownership of Southpointe Office Parke and Epler Parke I, located in Indianapolis, Indiana, or the Southpointe property. We primarily financed the purchase price through the assumption of an existing mortgage loan of \$9,146,000 on the property with LaSalle Bank National Association, or LaSalle, and approximately \$5,115,000 of the proceeds from a \$7,500,000 unsecured loan from NNN Realty Advisors. The balance was

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paid using funds raised through our Offering. An acquisition fee of \$444,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Crawfordsville Medical Office Park and Athens Surgery Center Crawfordsville, Indiana

On January 22, 2007, we acquired all of the membership interests of NNN Crawfordsville, LLC from an affiliate, for a total purchase price of \$6,900,000, plus closing costs. NNN Crawfordsville, LLC has fee simple ownership of Crawfordsville Medical Office Park and Athens Surgery Center, located in Crawfordsville, Indiana, or the Crawfordsville property. We primarily financed the purchase price through the assumption of an existing mortgage loan of \$4,264,000 on the property with LaSalle and approximately \$2,385,000 of the proceeds from a \$7,500,000 unsecured loan from NNN Realty Advisors. The balance was paid using funds raised through our Offering. An acquisition fee of \$207,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

The Gallery Professional Building St. Paul, Minnesota

On March 9, 2007, we acquired all of the membership interests of NNN Gallery Medical, LLC from an affiliate, for a total purchase price of \$8,800,000, plus closing costs. NNN Gallery Medical, LLC has fee simple ownership of The Gallery Professional Building, located in St. Paul, Minnesota, or the Gallery property. We primarily financed the purchase price through the assumption of an existing mortgage loan of \$6,000,000 on the property with LaSalle and a \$1,000,000 unsecured loan from NNN Realty Advisors. The balance of the purchase price was paid using funds raised through our Offering. An acquisition fee of \$264,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Lenox Office Park, Building G Memphis, Tennessee

On March 23, 2007, we acquired all of the membership interests of NNN Lenox Medical, LLC and NNN Lenox Medical Land, LLC from an affiliate, for a total purchase price of \$18,500,000, plus closing costs. NNN Lenox Medical, LLC holds a leasehold interest in Lenox Office Park, Building G and NNN Lenox Medical Land, LLC holds a fee simple interest in two vacant parcels of land within Lenox Office Park, located in Memphis, Tennessee, which we collectively refer to as the Lenox property. We primarily financed the purchase price of the property and land parcels through the assumption of an existing mortgage loan of \$12,000,000 on the property with LaSalle. The balance of the purchase price was paid using funds raised through our Offering. An acquisition fee of \$555,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Unaffiliated Third Party Acquisitions

Commons V Medical Office Building Naples, Florida

On April 24, 2007, we acquired Commons V Medical Office Building, located in Naples, Florida, or the Commons V property, from an unaffiliated third party, for a total purchase price of \$14,100,000, plus closing costs. We financed the purchase price using funds raised through our Offering. An acquisition fee of \$423,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate. In addition, a real estate commission of \$300,000, or approximately 2.0% of the purchase price, was paid by the seller to Grubb & Ellis. On May 14, 2007, we entered into a loan, secured by the Commons V property, with Wachovia Bank, National Association, or Wachovia, evidenced by a promissory note in the principal amount of \$10,000,000. The proceeds from this loan were used to purchase the Thunderbird Medical Plaza as described below.

Yorktown Medical Center and Shakerag Medical Center Fayetteville and Peachtree City, Georgia

On May 2, 2007, we acquired Yorktown Medical Center and Shakerag Medical Center, located in Fayetteville, Georgia and Peachtree City, Georgia, respectively, which we collectively refer to as the Peachtree property, for a total purchase price of \$21,500,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price through a secured loan with Wachovia as evidenced by

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a promissory note in the principal amount of \$13,530,000 and with funds raised through our Offering. An acquisition fee of \$645,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Thunderbird Medical Plaza Glendale, Arizona

On May 15, 2007, we acquired Thunderbird Medical Plaza, located in Glendale, Arizona, from an unaffiliated third party for a total purchase price of \$25,000,000, plus closing costs. We financed the purchase price using a combination of \$9,651,000 in net proceeds from the \$10,000,000 loan from Wachovia secured by the Commons V property (described above) and funds raised through our Offering. An acquisition fee of \$750,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate. On June 8, 2007, we entered into a loan, secured by the Thunderbird property, with Wachovia, evidenced by a promissory note in the principal amount of \$14,000,000. The proceeds from this loan were used to purchase Triumph Hospital Northwest and Triumph Hospital Southwest as described below.

Triumph Hospital Northwest and Triumph Hospital Southwest Houston and Sugar Land, Texas

On June 8, 2007, we acquired Triumph Hospital Northwest, located in Houston, Texas, and Triumph Hospital Southwest, located in Sugar Land, Texas, which we collectively refer to as the Triumph Hospital Portfolio, for a total purchase price of \$36,500,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price using a combination of \$12,605,000 in net proceeds from the loan from Wachovia secured by the Thunderbird property (described above), \$20,975,000 from funds raised through our Offering and the balance of \$4,000,000 from an unsecured loan from NNN Realty Advisors. An acquisition fee of \$1,095,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Gwinnett Professional Center Lawrenceville, Georgia

On July 27, 2007, we acquired the Gwinnett Professional Center, located in Lawrenceville, Georgia, or the Gwinnett property, for a total purchase price of \$9,300,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price using a combination of debt financing consisting of a \$6,000,000 loan assumed with a current principal balance of \$5,734,000 secured by the Gwinnett property from LaSalle and funds raised through our Offering. An acquisition fee of \$279,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

1 and 4 Market Exchange Columbus, Ohio

On August 15, 2007, we acquired 1 Market Exchange, 4 Market Exchange and a vacant parcel of land, located in Columbus, Ohio, which we collectively refer to as the 1 and 4 Market property, for a total purchase price of \$21,900,000, plus closing costs. We acquired the property from unaffiliated third parties. We financed the purchase price using funds raised through our Offering. An acquisition fee of \$657,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate. On September 28, 2007, we entered into a loan, secured by the 1 and 4 Market property, with Wachovia, evidenced by a promissory note in the principal amount of \$14,500,000.

Kokomo Medical Office Park Kokomo, Indiana

On August 30, 2007, we acquired the Kokomo Medical Office Park, located in Kokomo, Indiana, or the Kokomo property, for a total purchase price of \$13,350,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price using a combination of funds raised through our Offering and the balance of \$1,300,000 from an unsecured loan from NNN Realty Advisors. An acquisition fee of \$401,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

St. Mary Physicians Center Long Beach, California

On September 5, 2007, we acquired St. Mary Physicians Center, located in Long Beach, California, or the St. Mary property, for a total purchase price of \$13,800,000, plus closing costs. We acquired the property

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from an unaffiliated third party. We financed the purchase price using a combination of \$8,280,000 from a loan secured by the St. Mary property and the balance of \$6,100,000 from an unsecured loan from NNN Realty Advisors. An acquisition fee of \$414,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

2750 Monroe Boulevard Valley Forge, Pennsylvania

On September 10, 2007, we acquired 2750 Monroe Boulevard, located in Valley Forge, Pennsylvania, or the 2750 Monroe property, for a total purchase price of \$26,700,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with approximately \$27,870,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank (defined previously). An acquisition fee of \$801,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

East Florida Senior Care Portfolio Jacksonville, Winter Park and Sunrise, Florida

On September 28, 2007, we acquired the East Florida Senior Care Portfolio, located in Jacksonville, Winter Park and Sunrise, Florida, or the EFSC property, for a total purchase price of \$52,000,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price using a combination of \$24,918,000 in net proceeds from a \$26,000,000 loan (net of a \$4,500,000 loan holdback) from KeyBank National Association, or KeyBank, secured by the EFSC property, \$11,000,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank and the balance with funds raised through our Offering. An acquisition fee of \$1,560,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Northmeadow Medical Center Roswell, Georgia

On November 15, 2007, we acquired Northmeadow Medical Center, located in Roswell, Georgia, or the Northmeadow property, for a total purchase price of \$11,850,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with \$12,400,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank. An acquisition fee of \$356,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate. On November 20, 2007, we entered into a loan, secured by the Northmeadow property, with Equitrust Life Insurance Company, or Equitrust, evidenced by a promissory note in the principal amount of \$8,000,000.

Tucson Medical Office Portfolio Tucson, Arizona

On November 20, 2007, we acquired Tucson Medical Office Portfolio, located in Tucson, Arizona, or the Tucson Medical property, for a total purchase price of \$21,050,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with \$22,000,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank and with funds raised through our Offering. An acquisition fee of \$632,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Lima Medical Office Portfolio Lima, Ohio

On December 7, 2007, we acquired Lima Medical Office Portfolio, located in Lima, Ohio, or the Lima Medical property, for a total purchase price of \$25,250,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with \$26,000,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank and with funds raised through our Offering. An acquisition fee of \$758,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

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Highlands Ranch Park Plaza Highlands Ranch, Colorado

On December 19, 2007, we acquired Highlands Ranch Park Plaza, located in Highlands Ranch, Colorado, or the Highlands Ranch property, for a total purchase price of \$14,500,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with a secured loan of \$8,853,000 from Wachovia, \$2,901,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank and with funds raised through our Offering. An acquisition fee of \$435,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Park Place Office Park Dayton, Ohio

On December 20, 2007, we acquired Park Place Office Park, located in Dayton, Ohio, or the Park Place property, for a total purchase price of \$16,200,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with a secured loan of \$10,943,000 from Wachovia, \$500,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank and with funds raised through our Offering. An acquisition fee of \$486,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Chesterfield Rehabilitation Center Chesterfield, Missouri

On December 20, 2007, we executed a limited liability company agreement, or the Operating Agreement, with BD St. Louis Development, LLC, or BD St. Louis, a subsidiary of Duke Realty Corporation, an unaffiliated third party. Pursuant to the Operating Agreement, we acquired an 80.0% membership interest in G&E Healthcare REIT/Duke Chesterfield Rehab, LLC, or the JV Company, a joint venture company formed with BD St. Louis, and BD St. Louis acquired a 20.0% membership interest in the JV Company. BD St. Louis contributed Chesterfield Rehabilitation Center, located in Chesterfield, Missouri, or the Chesterfield property, at an agreed upon value of \$36,440,000 to the JV Company and received cash of \$33,552,000 and we contributed \$11,552,000 in cash. We funded our cash contribution, plus closing costs, using \$12,800,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank. In addition, the JV Company obtained additional financing from a secured loan in the amount of \$22,000,000 from National City Bank. An acquisition fee of \$1,093,000, or 3.0% of the agreed upon value of the Chesterfield property, was paid to our advisor and its affiliate.

Leverage

In accordance with our charter, a majority of our directors, including a majority of our independent directors, approved our leverage exceeding 300.0% of the value of our net assets in connection with our first four acquisitions of real properties. 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. Our board of directors determined that the excess leverage was justified because it enabled us to purchase the properties during the initial stages of our Offering, thereby improving our ability to meet our goal of acquiring a diversified portfolio of properties to generate current income for stockholders and preserve their capital. As of December 31, 2007 and March 25, 2008, our leverage does not exceed 300.0% of the value of our net assets.

Acquisitions in 2008

Unaffiliated Third Party Acquisitions

Medical Portfolio 1

On February 1, 2008, we acquired Medical Portfolio 1, located in Kansas and Florida, or the Medical Portfolio 1 property, for a total purchase price of \$36,950,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with a secured loan of \$22,000,000 from Wachovia and \$16,000,000 in borrowings under our secured revolving line of credit with

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LaSalle and KeyBank. An acquisition fee of \$1,109,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Fort Road Medical Building

On March 6, 2008, we acquired Fort Road Medical Building, located in St. Paul, Minnesota, or the Fort Road property, for a total purchase price of \$8,650,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with a secured loan of \$5,800,000 from LaSalle, \$3,000,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank and with funds raised through our Offering. An acquisition fee of \$260,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Liberty Falls Medical Plaza

On March 19, 2008, we acquired Liberty Falls Medical Plaza, located in Liberty Township, Ohio, or the Liberty property, for a total purchase price of \$8,150,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with \$7,600,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank. An acquisition fee of \$245,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Epler Parke Building B

On March 24, 2008, we acquired Epler Parke Building B, located in Indianapolis, Indiana, or the Epler B property, for a total purchase price of \$5,850,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with \$6,100,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank. An acquisition fee of \$176,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Cypress Station Medical Building

On March 25, 2008, we acquired Cypress Station Medical Building, located in Houston, Texas, or the Cypress property, for a total purchase price of \$11,200,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with a secured loan of \$7,300,000 from National City Bank and \$4,500,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank. An acquisition fee of \$336,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Proposed Unaffiliated Third Party Acquisitions

On March 10, 2008, our board of directors approved the acquisitions of: (1) Senior Care Portfolio 1 located in California and Texas for a total purchase price of \$39,600,000, plus closing costs; and (2) Vista Professional Center, located in Lakeland, Florida for a total purchase price of \$5,250,000, plus closing costs. We intend to finance the purchases through debt financing.

We expect to pay our advisor and its affiliate an acquisition fee of \$1,188,000 and \$158,000, respectively, or 3.0% of the respective purchase prices, in connection with the acquisition of Senior Care Portfolio 1 and Vista Professional Center. We anticipate that the closings will occur in the first quarter of 2008; however, the closings are subject to certain agreed upon conditions and there can be no assurance that we will be able to complete the acquisition of Senior Care Portfolio 1 and Vista Professional Center.

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

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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 Statement of Financial Accounting Standards, or SFAS, No. 13, *Accounting for Leases*, or SFAS No. 13, as amended and interpreted, 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 Emerging Issues Task Force, or EITF, Issue 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*, or Issue 99-19. Issue 99-19 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. Our determination of the adequacy of these allowances is based primarily upon evaluations of historical loss experience, individual tenant receivables considering 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; 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 236 months, respectively. Furniture, fixtures and equipment is depreciated over five years. When depreciable property is retired or disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss reflected in operations.

Impairment

Our properties are carried at the lower of historical cost less accumulated depreciation or fair value. We assess the impairment of a real estate asset when events or changes in circumstances indicate that the net book value 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.

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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 requires 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.

Properties Held for Sale

We account for our properties held for sale in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets*, or SFAS No. 144, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and requires that, in a period in which a component of an entity either has been disposed of or is classified as held for sale, the income statements for current and prior periods shall report the results of operations of the component as discontinued operations.

In accordance with SFAS No. 144, at such time as a property is held for sale, such property is carried at the lower of (1) its carrying amount or (2) fair value less costs to sell. In addition, a property being held for sale ceases to be depreciated. We classify operating properties as property held for sale in the period in which all of the following criteria are met:

management, having the authority to approve the action, commits to a plan to sell the asset;

the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets;

an active program to locate a buyer and other actions required to complete the plan to sell the asset has been initiated;

the sale of the asset is probable and the transfer of the asset is expected to qualify for recognition as a completed sale within one year;

the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and

given the actions required to complete the plan to sell the asset, it is unlikely that significant changes to the plan would be made or that the plan would be withdrawn.

Purchase Price Allocation

In accordance with SFAS No. 141, *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 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. The amounts allocated to above market leases are included in the intangible assets and below market lease values are included in intangible liabilities in our consolidated financial

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statements and are amortized to rental income over the weighted average remaining term 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 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 fixed rate mortgage and the cash flow stream of a market fixed rate mortgage. The amounts allocated to above or below market debt are included in mortgage loan payables, net on our accompanying consolidated balance sheets and are 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 have not yet qualified as a REIT. We intend to make the election to be taxed as a REIT, under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, or the Code, when we file our tax return for the taxable year ended December 31, 2007. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90.0% of our ordinary taxable income to stockholders. As a REIT, we generally will not be subject to federal income tax on taxable 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 at regular corporate rates 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 net income and net cash available for distribution to stockholders. Because of our intention to elect REIT status when we file our fiscal year 2007 tax return, we will not benefit from the net loss incurred by us for the year ended December 31, 2006.

Factors Which May Influence Results of Operations

Rental Income

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

Scheduled Lease Expirations

As of December 31, 2007, our consolidated properties were 88.6% leased. 5.6% of the leased GLA expires during the year ended December 31, 2008. Our leasing strategy for 2008 focuses on negotiating renewals for leases scheduled to expire during the remainder of the year. If we are unable to negotiate such renewals, we will try to identify new tenants or collaborate with existing tenants who are seeking additional space to occupy. Of the leases expiring in

2008, we anticipate, but cannot assure, that all of the tenants will renew for another term.

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Offering Proceeds

If we fail to raise significant proceeds under our Offering, we will not have enough proceeds to invest in a diversified real estate portfolio. Our real estate portfolio would be concentrated in a small number of properties, resulting in increased exposure to local and regional economic downturns and the poor performance of one or more of our properties and, therefore, expose our stockholders to increased risk. In addition, many of our 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.

Sarbanes-Oxley Act

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

In addition, these laws, rules and regulations create new legal bases for potential administrative enforcement, civil and criminal proceedings against us in case 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, our failure to comply, could result in fees, fines, penalties or administrative remedies against us.

Results of Operations

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

We are not aware of any material trends or uncertainties, other than national economic conditions affecting real estate generally, 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, the financial impact of the downturn of the credit markets, and those risks listed in Part I, Item 1A. Risk Factors.

We had limited results of operations for the period from April 28, 2006 (Date of Inception) through December 31, 2006 and therefore our results of operations for the year ended December 31, 2007 are not comparable. The increase in operations is due to purchasing 20 properties for the year ended December 31, 2007 as compared to not owning any properties for the period from April 28, 2006 (Date of Inception) through December 31, 2006, except where otherwise noted.

Rental Income

For the year ended December 31, 2007, rental income was \$17,626,000 as compared to \$0 for the period from April 28, 2006 (Date of Inception) through December 31, 2006. In 2007, rental income was primarily comprised of base rent of \$13,785,000 and expense recoveries of \$3,075,000.

Rental Expenses

For the year ended December 31, 2007, rental expenses were \$6,037,000 as compared to \$0 for the period from April 28, 2006 (Date of Inception) through December 31, 2006. In 2007, Rental expenses represent expense at our 20 properties. Rental expenses were primarily comprised of real estate taxes of \$1,689,000, utilities of \$1,534,000, repairs and maintenance of \$1,669,000, property management fees of \$574,000 and insurance of \$210,000.

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General and Administrative

For the year ended December 31, 2007, general and administrative was \$3,297,000 as compared to \$242,000 for the period from April 28, 2006 (Date of Inception) through December 31, 2006. In 2007, general and administrative consisted primarily of director and officer's insurance premiums of \$242,000, directors' fees of \$248,000, restricted stock compensation of \$96,000, professional and legal fees of \$637,000, audit fees for the 20 property acquisitions of \$372,000, postage and delivery of \$40,000 and asset management fees of \$1,590,000. In 2006, general and administrative consisted of director and officer's insurance premiums of \$68,000, directors' fees of \$55,000, restricted stock compensation of \$51,000 and professional and legal fees of \$68,000. The increase in general and administrative was due to a full year of operations and increased legal and professional fees in connection with the acquisition of our 20 properties, as well as asset management fees on the portfolio of 20 properties.

Depreciation and Amortization

For the year ended December 31, 2007, depreciation and amortization was \$9,790,000 as compared to \$0 for the period from April 28, 2006 (Date of Inception) through December 31, 2006. In 2007, depreciation and amortization was comprised of depreciation on the properties of \$4,616,000, amortization of identified intangible assets of \$5,167,000 and amortization of lease commissions of \$7,000.

Interest Expense

For the year ended December 31, 2007, interest expense was \$6,400,000 as compared to \$0 for the period from April 28, 2006 (Date of Inception) through December 31, 2006. In 2007, interest expense was related to interest expense primarily on our mortgage loan payables and our secured revolving line of credit with LaSalle and KeyBank of \$4,762,000, interest expense on unsecured note payables to NNN Realty Advisors of \$84,000, losses on derivative financial instruments of \$1,377,000 related to our interest rate swaps and amortization of loan fees and debt discount of \$177,000 that are being amortized to interest expense over the terms of the related debt instruments.

Interest and Dividend Income

For the year ended December 31, 2007, interest and dividend income was \$224,000 as compared to \$0 for the period from April 28, 2006 (Date of Inception) through December 31, 2006. In 2007, interest and dividend income was related primarily to interest earned on our money market accounts. The increase in interest and dividend income was due to having higher cash balances in 2007 as compared to 2006.

Minority Interests

For the year ended December 31, 2007, minority interests were \$8,000 as compared to \$0 for the period from April 28, 2006 (Date of Inception) through December 31, 2006. In 2007, minority interests was primarily related to the minority interest owner's 20.0% share in the Chesterfield property.

Net Loss

For the year ended December 31, 2007, we had a net loss of \$(7,666,000), or \$(0.77) per share, as compared to \$(242,000), or \$(149.03) per share, for the period from April 28, 2006 (Date of Inception) through December 31, 2006. The increase in net loss was due to the factors discussed above.

Liquidity and Capital Resources

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

Our principal demands for funds will be for acquisitions of real estate and real estate related securities, to pay operating expenses and interest on our outstanding indebtedness and to make distributions to our stockholders. In addition, we will require resources to make certain payments to our advisor and Grubb & Ellis Securities, Inc., or Grubb & Ellis Securities, or our dealer manager, which during our Offering include

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payments to our advisor and its affiliates for reimbursement of certain organizational and offering expenses and to our dealer manager and its affiliates for selling commissions, non-accountable marketing support fees and due diligence expense reimbursements.

Generally, cash needs for items other than acquisitions of real estate and real estate related securities will be met from operations, borrowing, and the net proceeds of our Offering, including the proceeds raised through the DRIP. However, there may be a delay between the sale of shares of our common stock and our investments in properties and real estate related securities, which could result in a delay in the benefits to our stockholders, if any, of returns generated from our investments operations. 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 twelve months.

Our advisor evaluates potential additional investments and will engage in negotiations with real estate sellers, developers, brokers, investment managers, lenders and others on our behalf. Until we invest the proceeds of our Offering in properties and real estate related securities, we may invest in short-term, highly liquid or other authorized investments. Such short-term investments will not earn significant returns, and we cannot predict how long it will take to fully invest the proceeds in properties and real estate related securities. The number of properties we may acquire and other investments we will make will depend upon the number of shares sold and the resulting amount of the net proceeds available for investment.

When we acquire a property, our advisor prepares a capital plan that contemplates the estimated capital needs of that investment. In addition to operating expenses, capital needs may also include costs of refurbishment, tenant improvements or other major capital expenditures. The capital plan also sets forth the anticipated sources of the necessary capital, which may include a line of credit or other loan established with respect to the investment, operating cash generated by the investment, additional equity investments from us or joint venture partners or, when necessary, capital reserves. Any capital reserve would be established from the gross proceeds of our Offering, proceeds from sales of other investments, operating cash generated by other investments or other cash on hand. In some cases, a lender may require us to establish capital reserves for a particular investment. The capital plan for each investment will be adjusted through ongoing, regular reviews of our portfolio or as necessary to respond to unanticipated additional capital needs.

Other Liquidity Needs

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

We estimate that our expenditures for capital improvements and tenant improvements will require up to \$1,852,000 within the next twelve months. As of December 31, 2007, we had \$2,725,000 of restricted cash in loan impounds and reserve accounts for such capital expenditures. We cannot provide assurance, however, that we will not exceed these estimated expenditure and distribution levels or be able to obtain additional sources of financing on commercially favorable terms or at all.

If we experience lower occupancy levels, reduced rental rates, reduced revenues as a result of asset sales, 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. In connection with such a shortfall in net cash available, we may seek to obtain capital to pay distributions by means of secured or unsecured debt financing through one or more third parties, or our advisor or its affiliates. This estimate is based on various assumptions which are difficult to predict, including the levels of leasing activity at year end and related leasing costs. Any changes in these assumptions could impact the financial results and our ability to fund working capital and unanticipated cash needs. To the

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extent any distributions are made to stockholders in excess of accumulated earnings, the excess distributions are considered a return of capital to stockholders for federal income tax purposes. Distributions in excess of tax capital are non-taxable to the extent of tax basis. Distributions in excess of tax basis will constitute capital gains.

Cash Flows

Cash flows provided by operating activities for the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, were \$7,005,000 and \$0, respectively. In 2007, cash flows provided by operating activities related primarily to operations from our properties. We anticipate cash flows from operating activities to continue to increase as we purchase more properties.

Cash flows used in investing activities for the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, were \$385,440,000 and \$0, respectively. In 2007, cash flows used in investing activities related primarily to the acquisition of our 20 properties in the amount of \$380,398,000. We anticipate cash flows used in investing activities to continue to increase as we purchase more properties.

Cash flows provided by financing activities for the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, were \$383,700,000 and \$202,000, respectively. In 2007, cash flows provided by financing activities related primarily to funds raised from investors in the amount of \$210,937,000, borrowings on mortgage loan payables 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 loan payables, 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 relation to new debt. In 2006, cash flows provided by financing activities related to \$2,000 from the sale of 200 shares of our common stock to our advisor and \$200,000 invested in our operating partnership from our advisor. We anticipate cash flows from financing activities to increase in the future as we raise additional funds from investors and incur additional debt to purchase properties.

Distributions

The amount of the distributions 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 Code.

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

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. The income tax treatment for distributions reportable for the years ended December 31, 2007 and 2006 was as follows:

	Year Ended December 31, 2007		Year Ended December 31, 2006	
Ordinary income	\$	915,000	15.3%	\$ %

Capital gain				
Return of capital	5,081,000	84.7		
	\$ 5,996,000	100%	\$	%

For the year ended December 31, 2007, we paid distributions of \$5,996,000 from cash flow from operations of \$7,005,000 for the period. The distributions paid in excess of our cash flow from operations was

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paid using proceeds from our Offering. As of December 31, 2007, we had an amount payable of \$1,241,000 to our advisor and its affiliates for operating expenses, on-site personnel and engineering payroll, lease commissions and asset and property management fees, which will be paid from cash flow from operations in the future as they become due and payable by us in the ordinary course of business consistent with our past practice.

Our advisor and its affiliates have no obligations to defer or forgive amounts due to them. As of December 31, 2007, no amounts due to our advisor or its affiliates have been deferred or forgiven. In the future, if our advisor or its affiliates do not defer or forgive amounts due to them and our cash flow from operations is less than the distributions to be paid, we would be required to pay our distributions, or a portion thereof, with proceeds from our Offering or borrowed funds. As a result, the amount of proceeds available for investment and operations would be reduced, or we may incur additional interest expense as a result of borrowed funds.

In addition, for the year ended December 31, 2007, our funds from operations, or FFO, was \$2,124,000. We paid the \$3,872,000 of distributions in excess of FFO with proceeds from our Offering. See our disclosure regarding FFO below.

Capital Resources

Financing

We anticipate that aggregate borrowings, both secured and unsecured, will not exceed 60.0% of all of our properties and real estate related securities combined fair market values, as determined at the end of each calendar year beginning with our first full year of operations. For these purposes, the fair market value of each asset will be equal to the purchase price paid for the asset or, if the asset was appraised subsequent to the date of purchase, then the fair market value will be equal to the value reported in the most recent independent appraisal of the asset. Our policies do not limit the amount we may borrow with respect to any individual investment. As of December 31, 2007, our aggregate borrowings were 58.2% of all of our properties and real estate related securities combined fair market values.

Our charter precludes us from borrowing in excess of 300.0% of the value of our net assets, unless approved by our independent directors and the justification for such excess borrowing is disclosed to our stockholders in our next quarterly report. Net assets for purposes of this calculation are defined as our total assets (other than intangibles), valued at cost prior to deducting depreciation, reserves for bad debts and other non-cash reserves, less total liabilities. In accordance with our charter, a majority of our directors, including a majority of our independent directors, approved our leverage exceeding 300.0% of the value of our net assets in connection with our first four acquisitions of real properties. Our board of directors determined that the excess leverage was justified because it enabled us to purchase the properties during the initial stages of our Offering, thereby improving our ability to meet our goal of acquiring a diversified portfolio of properties to generate current income for stockholders and preserve their capital. As of December 31, 2007, our leverage did not exceed 300.0% of the value of our net assets.

Mortgage Loan Payables

Mortgage loan payables were \$185,899,000 (\$185,801,000, net of discount) and \$0 as of December 31, 2007 and 2006, respectively. As of December 31, 2007, we had fixed and variable rate mortgage loans with the effective interest rates ranging from 5.52% to 6.78% per annum and a weighted-average effective interest rate of 6.07% per annum. We had \$90,919,000 (\$90,821,000 net of discount), or 48.9%, of fixed rate debt at a weighted-average interest rate of 5.79% per annum and \$94,980,000, or 51.1%, of variable rate debt at a weighted-average interest rate of 6.35% per annum. We had fixed rate interest rate swaps on all of our variable rate mortgage loan payables, thereby effectively fixing our interest rate on those mortgage loan payables. We are required by the terms of the applicable loan

documents to meet certain financial covenants, such as debt service coverage ratios and rent coverage ratios and reporting requirements. As of December 31, 2007, we were in compliance with all such covenants and requirements.

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Mortgage loan payables consisted of the following as of December 31, 2007 and 2006:

Property	Interest Rate	Maturity Date	December 31, 2007	December 31, 2006
Fixed Debt:				
Southpointe Office Parke and Epler Parke I Crawfordsville Medical Office Park and Athens Surgery Center	6.11%	09/01/16	\$ 9,146,000	\$
The Gallery Professional Building	6.12%	10/01/16	4,264,000	
Lenox Office Park, Building G	5.76%	03/01/17	6,000,000	
Commons V Medical Office Building	5.88%	02/01/17	12,000,000	
Yorktown Medical Center and Shakerag Medical Center	5.54%	06/11/17	10,000,000	
Thunderbird Medical Plaza	5.52%	05/11/17	13,530,000	
Gwinnett Professional Center	5.67%	06/11/17	14,000,000	
St. Mary Physicians Center	5.88%	01/01/14	5,699,000	
Northmeadow Medical Center	5.80%	09/04/09	8,280,000	
	5.99%	12/01/14	8,000,000	
			90,919,000	
Variable Debt:				
1 and 4 Market Exchange	Variable*	09/28/10	14,500,000	
East Florida Senior Care Portfolio	Variable*	11/01/10	30,384,000	
Kokomo Medical Office Park	Variable*	11/30/10	8,300,000	
Park Place Office Park	Variable*	12/31/10	10,943,000	
Highlands Ranch Medical Plaza	Variable*	12/31/10	8,853,000	
Chesterfield Rehabilitation Center	Variable*	12/30/10	22,000,000	
			94,980,000	
		Total fixed and variable debt	185,899,000	
		Less: discount	(98,000)	
		Mortgage loan payables	\$ 185,801,000	\$

* As of December 31, 2007, we had variable rate mortgage loans with the effective interest rates ranging from 6.15% to 6.78% per annum and a weighted-average effective interest rate of 6.35% per annum. However, as of December 31, 2007, we had fixed rate interest rate swaps, ranging from 5.52% to 6.02%, on all of our variable rate mortgage loan payables, thereby effectively fixing our interest rate on those mortgage loan payables

Unsecured Note Payables to Affiliate

For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we entered into, and subsequently paid down, the following unsecured loans with NNN Realty Advisors, evidenced by unsecured promissory notes:

Date of Note	Amount	Maturity Date	Interest Rate	Default Interest Rate	Date Paid in Full
01/22/07	\$ 7,500,000	07/22/07	6.86%	8.86%	03/28/07
03/09/07	\$ 1,000,000	09/09/07	6.84%	8.84%	03/28/07
06/08/07	\$ 4,000,000	12/08/07	6.82%	8.82%	06/18/07
08/30/07	\$ 1,300,000	03/01/08	6.85%	8.85%	09/04/07
09/05/07	\$ 6,100,000	03/05/08	6.86%	8.86%	09/11/07

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The unsecured notes bore interest at a fixed rate and required monthly interest-only payments for the terms of the unsecured notes. As of December 31, 2007 and 2006, we had no outstanding balances under the unsecured note payables to affiliate.

Because these loans were related party loans, the terms of the loans and the unsecured notes were approved by our board of directors, including a majority of our independent directors, and deemed fair, competitive and commercially reasonable by our board of directors.

Line of Credit

On September 10, 2007, we entered into a loan agreement, or the Loan Agreement, with LaSalle to obtain a secured revolving credit facility in an aggregate maximum principal amount of \$50,000,000, or the LaSalle line of credit. The proceeds of loans made under the Loan Agreement may be used to finance the purchase of properties or, provided no event of default has occurred and is continuing, may be used for any other lawful purpose. In addition to loans, our operating partnership may obtain up to an additional \$10,000,000 of the credit available under the Loan Agreement in the form of letters of credit. The initial term of the Loan Agreement is three years, which may be extended by one 12-month period subject to satisfaction of certain conditions, including payment of an extension fee equal to 0.20% of the principal balance of loans then outstanding.

The actual amount of credit available under the Loan Agreement is a function of certain loan to cost, loan to value and debt service coverage ratios contained in the Loan Agreement. The maximum principal amount of the Loan Agreement may be increased to \$120,000,000 subject to the terms of the Loan Agreement. Also, additional financial institutions may become lenders under the Loan Agreement.

At our option, loans under the Loan Agreement bear interest at per annum rates equal to (1) LIBOR plus a margin ranging from 1.45% to 1.60%, depending on the ratio of outstanding amounts under the Loan Agreement to the value of the collateral securing the Loan Agreement, (2) the greater of LaSalle's prime rate or the Federal Funds Rate plus 0.50%, or (3) a combination of these rates. Accrued interest under the Loan Agreement is payable monthly and at maturity. In addition to interest, we are required to pay a fee on the unused portion of the lenders' commitments under the Loan Agreement at a per annum rate equal to 0.20%, payable quarterly in arrears, beginning with the quarter ending December 31, 2007.

Our obligations with respect to the Loan Agreement are guaranteed by us and by our subsidiaries that own properties that serve as collateral for the Loan Agreement.

The Loan Agreement contains various affirmative and negative covenants that are customary for facilities and transactions of this type, including limitations on the incurrence of debt by us and our subsidiaries that own properties that serve as collateral for the Loan Agreement, limitations on the nature of our business, and limitations on distributions by us and our subsidiaries that own properties that serve as collateral for the Loan Agreement. The Loan Agreement also imposes the following financial covenants on us and our operating partnership, as applicable: (1) a minimum ratio of operating cash flow to interest expense, (2) a minimum ratio of operating cash flow to fixed charges, (3) a maximum ratio of liabilities to asset value, (4) a maximum distribution covenant and (5) a minimum net worth covenant, all of which are defined in the Loan Agreement. In addition, the Loan Agreement includes events of default that are customary for facilities and transactions of this type. As of December 31, 2007, we were in compliance with all such covenants and requirements.

On December 12, 2007, we, along with our subsidiaries, entered into a Modification of Loan Agreement with LaSalle and amended and restated promissory notes with each of LaSalle and KeyBank (1) to increase the aggregate maximum principal amount available under the LaSalle line of credit from \$50,000,000 to \$80,000,000; (2) to modify

the applicable margin rate for LIBOR loans from a range of 1.45% to 1.60% to a stated margin of 1.50%; (3) to decrease the applicable margin rate for base rate loans from 0.5% to 0.0%; and (4) to add KeyBank as a lender under the LaSalle line of credit, which we refer to as our secured revolving line of credit with LaSalle and KeyBank. Our secured revolving line of credit with LaSalle and KeyBank is secured by the Triumph Hospital Portfolio, the 2750 Monroe property, the Lima Medical property and the Tucson Medical property.

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As of December 31, 2007 and 2006, borrowings under our secured revolving line of credit with LaSalle and KeyBank totaled \$51,801,000 and \$0, respectively. Borrowings as of December 31, 2007 bore interest at a weighted-average interest rate of 6.93% per annum.

REIT Requirements

In order to qualify 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

Organizational, Offering and Related Expenses

Our organizational, offering and related expenses are being paid by our advisor and its affiliates on our behalf. These organizational, offering and related expenses include all expenses (other than selling commissions and the marketing support fee which generally represent 7.0% and 2.5% of our gross offering proceeds, respectively) to be paid by us in connection with our Offering. These expenses will only become our liability to the extent selling commissions, the marketing support fee and due diligence expense reimbursements and other organizational and offering expenses do not exceed 11.5% of the gross proceeds of our Offering. As of December 31, 2007 and 2006, expenses of \$1,086,000 and \$1,093,000, respectively, in excess of 11.5% of the gross proceeds of our Offering, have been incurred by our advisor or Grubb & Ellis Realty Investors and these expenses are not recorded in our accompanying consolidated financial statements as of December 31, 2007 and 2006. To the extent we raise additional proceeds from our Offering, these amounts may become our liability. See Note 11, Related Party Transactions – Offering Stage, for a further discussion of these amounts during our offering stage.

Repairs and Maintenance Expenses

We are required by the terms of the mortgage loan payable secured by the Thunderbird property to complete certain repairs to the property in the amount of \$190,000 by February 2008. We are required by the terms of the mortgage loan payable secured by the Gallery property to complete certain repairs to the property in the amount of \$63,000 by January 2008. Funds for these expenditures are held by the lender and are included in restricted cash on our accompanying consolidated balance sheet as of December 31, 2007.

Chesterfield Property

The Operating Agreement with BD St. Louis for the JV Company that owns the Chesterfield property provides that from January 1, 2010 to March 31, 2010, our operating partnership has the right and option to purchase the 20.0% membership interests in the JV Company held by BD St. Louis at a fixed price of \$3,900,000. However, if we do not exercise that right, the Operating Agreement provides that from January 1, 2011 to March 31, 2011, BD St. Louis has the right and option to sell all, but not less than all, of its 20.0% membership interests in the JV Company to our operating partnership at the greater of \$10.00 or the fair market value as determined in accordance with the Operating Agreement.

Insurance Coverage

The insurance coverage provided through third-party insurance carriers is subject to coverage limitations. For each type of insurance coverage, should an uninsured or underinsured loss occur, we could lose all or a portion of our investment in, and anticipated cash flows from, one or more of the properties. In addition, there can be no assurance that third-party insurance carriers will be able to maintain reinsurance sufficient to cover

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any losses that may be incurred. However, management believes that our current insurance coverage is adequate.

Debt Service Requirements

One of our principal liquidity needs is the payment of principal and interest on outstanding indebtedness. As of December 31, 2007, we had fixed and variable mortgage loan payables in the principal amount of \$185,899,000 (\$185,801,000, net of discount) outstanding secured by our properties and \$51,801,000 outstanding under our secured revolving line of credit with LaSalle and KeyBank. As of December 31, 2007, the weighted-average interest rate on our outstanding debt was 6.26% per annum.

Contractual Obligations

The following table provides information with respect to the maturities and scheduled principal repayments of our secured mortgage loan payables and our secured revolving line of credit with LaSalle and KeyBank as of December 31, 2007. The table does not reflect any available extension options.

	Payments Due by Period				Total
	Less than 1 Year (2008)	1-3 Years (2009- 2010)	4-5 Years (2011- 2012)	More than 5 Years (After 2012)	
Principal payments fixed rate debt	\$ 443,000	\$ 9,706,000	\$ 2,613,000	\$ 78,157,000	\$ 90,919,000
Interest payments fixed rate debt	5,143,000	9,678,000	9,092,000	16,773,000	40,686,000
Principal payments variable rate debt	52,228,000	94,553,000			146,781,000
Interest payments variable rate debt (based on rate in effect as of December 31, 2007)	9,001,000	9,758,000			18,759,000
Repairs and maintenance	253,000				253,000
Total	\$ 67,068,000	\$ 123,695,000	\$ 11,705,000	\$ 94,930,000	\$ 297,398,000

Off-Balance Sheet Arrangements

As of December 31, 2007 and 2006, 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

One of our objectives is to provide cash distributions to our stockholders from cash generated by our 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.

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We define FFO, a non-GAAP measure, consistent with the standards established by the White Paper on FFO approved by the Board of Governors of NAREIT, as revised in February 2004. The White Paper defines FFO as net income or loss computed in accordance with GAAP, excluding gains or losses from sales of property but including asset impairment writedowns, 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 with other REITs may not be meaningful. 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 performance. Our FFO reporting complies with NAREIT's policy described above.

The following is the calculation of FFO for the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006:

	Year Ended December 31, 2007	Period from April 28, 2006 (Date of Inception) through December 31, 2006
Net loss	\$ (7,666,000)	\$ (242,000)
Add:		
Depreciation and amortization consolidated properties	9,790,000	
Less:		
Depreciation and amortization related to minority interests		
FFO	\$ 2,124,000	\$ (242,000)
Weighted average common shares outstanding basic and diluted	9,952,771	1,622

Subsequent Events***Status of our Offering***

As of March 14, 2008, we had received and accepted subscriptions in our Offering for 25,933,558 shares of our common stock, or \$259,042,000, excluding shares issued under the DRIP.

Share Repurchases

In February 2008, we repurchased 12,270 shares, or \$123,000, under our share repurchase plan.

Related Party Services Agreement

We entered into a services agreement, effective January 1, 2008, with Grubb & Ellis Realty Investors for subscription agreement processing and investor services. The services agreement has an initial one-year term and shall thereafter automatically be renewed for successive one year terms. Since Grubb & Ellis Realty Investors is the managing member of our advisor, the terms of this agreement were approved and determined by a majority of our independent directors as fair and reasonable to us and at fees charged to us in an amount no greater than the cost to Grubb & Ellis Realty Investors for providing such services to us, which amount shall be no greater than that which would be paid to an unaffiliated third party for similar services. The

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services agreement requires Grubb & Ellis Realty Investors to provide us with a 180 day advance written notice for any termination, while we have the right to terminate upon 30 days advance written notice.

Unaffiliated Third Party Acquisitions

Medical Portfolio 1

On February 1, 2008, we acquired the Medical Portfolio 1 property for a total purchase price of \$36,950,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with a secured loan of \$22,000,000 from Wachovia and \$16,000,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank. An acquisition fee of \$1,109,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Fort Road Medical Building

On March 6, 2008, we acquired the Fort Road property for a total purchase price of \$8,650,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with a secured loan of \$5,800,000 from LaSalle, \$3,000,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank and with funds raised through our Offering. An acquisition fee of \$260,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Liberty Falls Medical Plaza

On March 19, 2008, we acquired the Liberty property for a total purchase price of \$8,150,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with \$7,600,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank. An acquisition fee of \$245,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Epler Parke Building B

On March 24, 2008, we acquired the Epler B property for a total purchase price of \$5,850,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with \$6,100,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank. An acquisition fee of \$176,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Cypress Station Medical Building

On March 25, 2008, we acquired the Cypress property for a total purchase price of \$11,200,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with a secured loan of \$7,300,000 from National City Bank and \$4,500,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank. An acquisition fee of \$336,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Proposed Unaffiliated Third Party Acquisitions

On March 10, 2008, our board of directors approved the acquisitions of: (1) Senior Care Portfolio 1 located in California and Texas for a total purchase price of \$39,600,000, plus closing costs; and (2) Vista Professional Center, located in Lakeland, Florida for a total purchase price of \$5,250,000, plus closing costs. We intend to finance the purchases through debt financing.

We expect to pay our advisor and its affiliate an acquisition fee of \$1,188,000 and \$156,000, respectively, or 3.0% of the respective purchase prices, in connection with the acquisition of Senior Care Portfolio 1 and Vista Professional Center. We anticipate that the closings will occur in the first quarter of 2008; however, the closings are subject to certain agreed upon conditions and there can be no assurance that we will be able to complete the acquisition of Senior Care Portfolio 1 and Vista Professional Center.

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Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board, or the FASB, issued SFAS No. 157, *Fair Value Measurement*, or SFAS No. 157. SFAS No. 157, which will be applied to other accounting pronouncements that require or permit fair value measurements, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and provides for expanded disclosure about fair value measurements. SFAS No. 157 was issued to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position SFAS No. 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, or FSP FAS 157-1. FSP FAS 157-1 defers the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. FSP FAS 157-1 also excludes from the scope of SFAS No. 157 certain leasing transactions accounted for under SFAS No. 13, *Accounting for Leases*. We adopted SFAS No. 157 and FSP FAS 157-1 on a prospective basis on January 1, 2008. The adoption of SFAS No. 157 and FSP FAS 157-1 did not have a material impact on our consolidated financial statements.

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

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, or SFAS No. 141(R), and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51*, or SFAS No. 160. These two new standards will significantly change the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements. SFAS No. 141(R) requires an acquiring entity to recognize acquired assets and liabilities assumed in a transaction at fair value as of the acquisition date, changes the disclosure requirements for business combination transactions and changes the accounting treatment for certain items, including contingent consideration agreements which will be required to be recorded at acquisition date fair value and acquisition costs which will be required to be expensed as incurred. SFAS No. 160 requires that noncontrolling interests be presented as a component of consolidated stockholders' equity, eliminates minority interest accounting such that the amount of net income attributable to the noncontrolling interests will be presented as part of consolidated net income in our accompanying consolidated statements of operations and not as a separate component of income and expense, and requires that upon any changes in ownership that result in the loss of control of the subsidiary, the noncontrolling interest be re-measured at fair value with the resultant gain or loss recorded in net income. SFAS No. 141(R) and SFAS No. 160 require simultaneous adoption and are to be applied prospectively for the first annual reporting period beginning on or after December 15, 2008. Early adoption of either standard is prohibited. We will adopt SFAS No. 141(R) and SFAS No. 160 on January 1, 2009. We are evaluating the impact of SFAS No. 141(R) and SFAS No. 160 and have not yet determined the impact the adoption will have on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, or SFAS No. 161. SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS No. 161 achieves these improvements by requiring

disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. It also provides more information about an entity's liquidity by requiring disclosure of derivative features that are credit risk-related. Finally, it requires cross-referencing within footnotes to

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enable financial statement users to locate important information about derivative instruments. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of SFAS No. 161 is not expected to have a material impact on our consolidated financial statements.

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. We do not enter into derivative or interest rate transactions for speculative purposes.

Our interest rate risk is monitored using a variety of techniques. The table below presents, as of December 31, 2007, 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.

	2008	2009	2010	Expected Maturity Date		Thereafter	Total	Fair
				2011	2012			
debt								
payments \$	443,000	\$ 8,871,000	\$ 835,000	\$ 1,256,000	\$ 1,357,000	\$ 78,157,000	\$ 90,919,000	\$ 86,
-average								
te on								
debt	5.91%	5.80%	5.79%	5.81%	5.81%	5.78%	5.79%	
rate debt								
payments \$	52,228,000	\$ 466,000	\$ 94,087,000	\$	\$	\$	\$ 146,781,000	\$ 146,
-average								
te on								
debt								
rates in								
f								
of								
31,	6.92%	6.28%	6.35%	%	%	%	6.56%	

The estimated fair value of our mortgage loan payables was \$181,067,000 as of December 31, 2007. The fair value of our secured revolving line of credit with LaSalle and KeyBank as of December 31, 2007 was \$51,801,000.

As of December 31, 2007, our debt consisted of fixed and variable mortgage loan payables in the principal amount of \$185,899,000 (\$185,801,000, net of discount), at a weighted-average interest rate of 6.07% per annum. We had \$90,919,000 (\$90,821,000, net of discount), or 48.9%, of fixed rate debt at a weighted-average interest rate of 5.79% per annum and \$94,980,000, or 51.1%, of variable rate debt at a weighted-average interest rate of 6.35% per annum.

We had fixed rate interest rate swaps on all of our variable rate mortgage loan payables, thereby effectively fixing our interest rate on those mortgage loan payables. In addition as of December 31, 2007, we had \$51,801,000 outstanding under our secured revolving line of credit with LaSalle and KeyBank at a weighted-average interest rate of 6.93% per annum.

An increase in the variable interest rate on our secured revolving line of credit with LaSalle and KeyBank constitutes a market risk. As of December 31, 2007, a 0.50% increase in the London Interbank Offered Rate, or LIBOR, would have increased our overall annual interest expense by \$259,000, or 4.05%.

As of December 31, 2006, no debt was outstanding.

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.

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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 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, 2007, an evaluation was conducted under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation 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 financial officer concluded that the design and operation of these 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 financial 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, 2007.

(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, 2007 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.

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The following table and biographical descriptions set forth information with respect to our officers and directors as of March 25, 2008.

Name	Age	Position	Term of Office
Scott D. Peters	50	Chief Executive Officer, President and Chairman of the Board	Since 2006
Shannon K S Johnson	30	Chief Financial Officer	Since 2006
Andrea R. Biller	58	Executive Vice President and Secretary	Since 2006
Danny Prosky	42	Vice President Acquisitions	Since 2006
W. Bradley Blair, II	64	Independent Director	Since 2006
Maurice J. DeWald	68	Independent Director	Since 2006
Warren D. Fix	69	Independent Director	Since 2006
Larry L. Mathis	64	Independent Director	Since 2007
Gary T. Wescombe	65	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 chief executive officer since April 2006, president since June 2007, and chairman of the board since July 2006 and as the chief executive officer of Grubb & Ellis Healthcare REIT Advisor, LLC, or our advisor, since July 2006. He has also served as the chief executive officer, president and a director of Grubb & Ellis Company, or Grubb & Ellis, or our sponsor, since December 2007, and as the chief executive officer, president and director of NNN Realty Advisors, Inc., or NNN Realty Advisors, a wholly owned subsidiary of Grubb & Ellis, and our former sponsor, since its formation in September 2006 and as its chairman of the board since December 2007. Mr. Peters also has served as the chief executive officer of Grubb & Ellis Realty Investors, LLC, or Grubb & Ellis Realty Investors, since November 2006. From September 2004 to October 2006, Mr. Peters served as the executive vice president and chief financial officer of Grubb & Ellis Realty Investors. 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 and as a director and executive vice president of Grubb & Ellis Apartment REIT, Inc. since April 2007 and January 2006, respectively. 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 real estate investment trust, or REIT. Mr. Peters received his B.B.A. degree in accounting and finance from Kent State University in Ohio.

Shannon K S Johnson has served as our chief financial officer since August 2006. Ms. Johnson has also served as a financial reporting manager for Grubb & Ellis Realty Investors since January 2006 and has served as the chief financial officer of Grubb & Ellis Apartment REIT, Inc. since April 2006. From June 2002 to January 2006, Ms. Johnson gained public accounting and auditing experience while employed as an auditor with PricewaterhouseCoopers LLP. Prior to joining PricewaterhouseCoopers LLP, from September 1999 to June 2002, Ms. Johnson worked as an auditor with Arthur Andersen LLP, where she worked on the audits of a variety of public

and private entities. Ms. Johnson is a Certified Public Accountant and graduated summa cum laude with her B.A. degree in Business-Economics and a minor in Accounting from the University of California, Los Angeles.

Andrea R. Biller has served as our executive vice president and secretary since April 2006 and as the executive vice president of our advisor since July 2006. She has also served as the general counsel, executive vice president and secretary of Grubb & Ellis, our sponsor, since December 2007, and NNN Realty Advisors, since its formation in September 2006 and as a director of NNN Realty Advisors since December 2007. She

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has served as general counsel for Grubb & Ellis Realty Investors since March 2003 and as executive vice president since January 2007. Ms. Biller has also served as the secretary and executive vice president of G REIT, Inc. from June 2004 to January 2008 and December 2005 to February 2008, respectively, the secretary of T REIT, Inc. from May 2004 to July 2007 and the secretary of Grubb & Ellis Apartment REIT, Inc. since January 2006. Ms. Biller practiced as a private attorney specializing in securities and corporate law from 1990 to 1995 and 2000 to 2002. She practiced at the SEC from 1995 to 2000, including two years as special counsel for the Division of Corporation Finance. Ms. Biller earned a B.A degree in Psychology from Washington University, an M.A. degree in Psychology from Glassboro State University in New Jersey and a J.D. degree from George Mason University School of Law in Virginia in 1990, where she graduated first with distinction. Ms. Biller is a member of the California, Virginia and the District of Columbia State Bar Associations.

Danny Prosky has served as our Vice President Acquisitions since July 2006. He has also served as Grubb & Ellis Realty Investors Managing Director Health Care Properties since March 2006 and is responsible for all medical property acquisitions, management and dispositions. Mr. Prosky previously worked with Health Care Property Investors, Inc., a healthcare-focused REIT where he served as the Assistant Vice President Acquisitions & Dispositions from 2005 to March 2006, and as Assistant Vice President Asset Management from 1999 to 2005. From 1992 to 1999, he served as the Manager, Financial Operations, Multi-Tenant Facilities for American Health Properties, Inc. Mr. Prosky received a B.S. degree in Finance from the University of Colorado and an M.S. degree in Management from Boston University.

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 initial public offering in 1997 until his resignation and retirement in November 2007. 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. Mr. Blair earned a B.S. degree in Business from Indiana University and his J.D. degree from the University of North Carolina at Chapel Hill Law School.

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. Mr. DeWald also serves as a director of Advanced Materials Group, Inc., Integrated Healthcare Holdings, Inc. and Aperture Health, Inc. Mr. DeWald was an audit partner and managing partner with the international accounting firm KPMG, LLP from 1962 to 1991. Mr. DeWald holds a B.B.A. degree from the University of Notre Dame in Indiana and is a member of its Mendoza School of Business Advisory Council. Mr. DeWald is a Certified Public Accountant.

Warren D. Fix has served as an independent director of our company since September 2006. He serves as the chief executive officer and a director of WCH, Inc., formerly Candlewood Hotel Company, Inc., having served as its executive vice president, chief financial officer and secretary since 1995. 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 refinancings. Mr. Fix has been a partner in The Contrarian Group, a business management company, from December 1992 to the present. From 1989 to December 1992, Mr. Fix served as president of the Pacific Company, a real estate investment and development company. From 1964 to 1989, Mr. Fix held numerous positions within The Irvine Company, a California-based real estate and development company, including, chief financial officer. Mr. Fix also serves as a director of Clark Investment Group, Clark Equity Capital, The Keller Financial Group, First Foundation Bank and Accel Networks. Mr. Fix is a Certified Public Accountant. Mr. Fix received his B.A. degree from Claremont McKenna College in California and is a graduate of the UCLA Executive Management Program, the Stanford Financial Management Program and the UCLA Anderson Corporate Director Program.

Larry L. Mathis has served as an independent director of our company since April 2007. Mr. Mathis has served as an executive consultant since 1998 with D. Petersen & Associates, providing counsel to select

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clients on leadership, management, governance, and strategy. He served in various capacities within The Methodist Hospital System, located in Houston, Texas, for the 27 years prior to joining D. Petersen & Associates, including consultant to the chairman of the board from 1997 to 1998, and president and chief executive officer, as well as a member of the board of directors, from 1983 to 1997. Mr. Mathis has also served as a member of the board of directors, chairman of the governance and nominating committee, and a member of the audit committee of Alexion Pharmaceuticals, Inc., a NASDAQ-listed company, since 2004. Additionally, Mr. Mathis has served as chairman of the boards of directors of the Texas Hospital Association, American Hospital Association and American College of Healthcare Executives. He has also served as the chairman of the National Task force on Healthcare Technology Assessment. Mr. Mathis received a B.A. degree in Social Sciences from Pittsburg State University in Kansas and a M.A. degree in Health Administration from Washington University in St. Louis.

Gary T. Wescombe has served as an independent director of our company since October 2006. He provides consulting services to various entities in the real estate sector and is a principal of American Oak Properties, LLC. 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 has also served as a director of G REIT, Inc. from December 2001 to January 2008 and has served as the 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, San Jose in 1965 and is a member of the American Institute of Certified Public Accountants and California Society of Certified Public Accountants.

Our Advisor**Management**

The following table sets forth information with respect to our advisor's executive officers as of March 25, 2008:

Name	Age	Position
Scott D. Peters	50	Chief Executive Officer
Andrea R. Biller	58	Executive Vice President

For biographical information regarding Mr. Peters and Ms. Biller, see Directors, Executive Officers and Corporate Governance, above.

Grubb & Ellis Realty Investors owns a 75.0% managing member interest in our advisor. Grubb & Ellis Healthcare Management, LLC owns a 25.0% non-managing member interest in our advisor. The members of Grubb & Ellis Healthcare Management, LLC include: (1) Scott D. Peters, our chief executive officer, president and chairman of the board, our advisor's chief executive officer, Grubb & Ellis' chief executive officer, president and director, NNN Realty Advisors' chief executive officer and chairman of the board, and Grubb & Ellis Realty Investors' chief executive officer; (2) Andrea R. Biller, our executive vice president and secretary, our advisor's executive vice president, Grubb & Ellis' executive vice president, secretary and general counsel, NNN Realty Advisors' executive vice president, secretary, general counsel, and director, and Grubb & Ellis Realty Investors' executive vice president and general counsel; and (3) Grubb & Ellis Realty Investors, for the benefit of other employees who perform services for us. As of March 25, 2008, each of Mr. Peters and Ms. Biller own 18.0% membership interests in Grubb & Ellis Healthcare Management, LLC.

We will rely on our advisor to manage our day-to-day activities and to implement our investment strategy. We, our advisor and Grubb & Ellis Realty Investors are parties to an advisory agreement, or the Advisory Agreement, pursuant to which our advisor performs its duties and responsibilities as our fiduciary.

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Grubb & Ellis, NNN Realty Advisors and Grubb & Ellis Realty Investors

Our sponsor Grubb & Ellis, headquartered in Santa Ana, California, is one of the most recognized full-service commercial real estate services firms in the United States. Drawing on the resources of nearly 5,500 real estate professionals, including a brokerage sales force of approximately 1,800 brokers nationwide, Grubb & Ellis and its affiliates combine local market knowledge with a national service network to provide innovative, customized solutions for real estate owners, corporate occupants and investors.

On December 7, 2007, NNN Realty Advisors, which previously served as our sponsor, merged with and into a wholly owned subsidiary of Grubb & Ellis. The transaction was structured as a reverse merger whereby stockholders of NNN Realty Advisors received shares of common stock of Grubb & Ellis in exchange for their NNN Realty Advisors shares of common stock and, immediately following the merger, former NNN Realty Advisor stockholders held approximately 59.5% of the common stock of Grubb & Ellis.

The merger combines a leading full-service commercial real estate organization with a leading sponsor of commercial real estate programs to create a diversified real estate services business providing a complete range of transaction, management and consulting services, and possessing a strong platform for continued growth. Grubb & Ellis continues to use the Grubb & Ellis name and continues to be listed on the New York Stock Exchange under the ticker symbol GBE. As a result of the merger, we consider Grubb & Ellis to be our sponsor. Upon Grubb & Ellis becoming our sponsor, we changed our name from NNN Healthcare/Office REIT, Inc. to Grubb & Ellis Healthcare REIT, Inc.

Grubb & Ellis Realty Investors, the parent and manager of our advisor and an indirect wholly owned subsidiary of our sponsor, offers a diverse line of investment products as well as a full-range of services including asset and property management, brokerage, leasing, analysis and consultation. Grubb & Ellis Realty Investors is also an active seller of real estate, bringing many of its investment programs full cycle.

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. We do not plan to have a compensation committee because we do not plan to pay any compensation to our officers. However, if in the future we provide any compensation to our officers, we will establish a compensation committee comprised entirely of independent directors to determine the nature and amount of such compensation.

Audit Committee

Our audit committee's primary function is to assist our 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. As of March 25, 2008, the audit committee is comprised of W. Bradley Blair, II, Maurice J. DeWald, Warren D. Fix and Gary T. Wescombe, all of whom are independent directors. Mr. DeWald currently serves as the chairman and has been designated as the audit committee financial expert.

2006 Incentive Plan and Independent Directors Compensation Plan

Although we currently do not have any employees and do not currently intend to hire any employees, we have adopted an incentive stock plan, which we will use to attract and retain qualified independent directors, any employees we may hire in the future, 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.

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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 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 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 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 stock underlying an award; and/or

other stock based awards in the discretion of the plan administrator, including unrestricted stock grants.

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.

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, any 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. Stockholders may request a copy of the Code of Ethics, which will be provided without charge, by writing to Grubb & Ellis Healthcare REIT, Inc. at 1551 N. Tustin Avenue, Suite 300, Santa Ana, California 92705, Attention: Secretary.

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 obligation to indemnify our directors and officers is subject to the limitations set forth in the indemnification agreements and in our charter.

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Item 11. Executive Compensation.

Executive Compensation

We have no employees. Our day-to-day management functions are performed by employees of our advisor and its affiliates. The individuals who serve as our executive officers do not receive compensation directly from us. Each of our executive officers, including those officers who serve as directors, is employed by our advisor or its affiliates, and is compensated by these entities for their services to us. We pay these entities fees and reimburse expenses pursuant to our Advisory Agreement. We do not currently intend to pay any compensation directly to our executive officers. As a result, we do not have, and our board of directors has not considered, a compensation policy or program for our executive officers and has not included a Compensation Discussion and Analysis in this Form 10-K.

Option/SAR Grants in Last Fiscal Year

No option grants were made to officers and directors for the year ended December 31, 2007.

Compensation Committee Interlocks and Insider Participation

There are no interlocks or insider participation as to compensation decisions required to be disclosed pursuant to SEC regulations.

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, our independent directors receive the following forms of compensation:

Annual Retainer. Our independent directors receive an annual retainer of \$36,000.

Meeting Fees. Our independent directors receive \$1,000 for each board meeting attended in person or by telephone, \$500 for each committee meeting attended in person or by telephone, and an additional \$500 to the audit committee chair for each audit 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 2,500 shares of restricted common stock upon his or her subsequent election each year. The restricted shares vest as to 20.0% 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 does not receive any compensation from us.

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The following table sets forth the compensation earned by our directors from us in 2007:

Name(a)	Fees Earned or Paid in Cash (\$) (b)	Stock Awards (\$)(c)(2)	Non-Equity			All Other Compensation (\$)(g)	Total (\$)(h)
			Option Awards (\$)(d)(2)	Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)(f)		
Scott D. Peters(3)	\$	\$	\$	\$	\$	\$	\$
W. Bradley Blair, II	\$ 54,500	\$ 17,750	\$	\$	\$	\$	\$ 72,250
Maurice J. DeWald	\$ 55,000	\$ 17,750	\$	\$	\$	\$	\$ 72,750
Warren D. Fix	\$ 54,500	\$ 17,750	\$	\$	\$	\$	\$ 72,250
Larry L. Mathis(4)	\$ 37,000	\$ 24,917	\$	\$	\$	\$	\$ 61,917
Gary T. Wescombe	\$ 52,500	\$ 17,750	\$	\$	\$	\$	\$ 70,250

(1) Consists of the amounts described below.

Director	Role	Basic Annual Retainer (\$)	Meeting Fees (\$)
Peters	Chairman of the Board	\$	\$
Blair	Member, Audit Committee	\$ 36,000	\$ 18,500
DeWald	Chairman, Audit Committee	\$ 36,000	\$ 19,000
Fix	Member, Audit Committee	\$ 36,000	\$ 18,500
Mathis	Member	\$ 26,000	\$ 11,000
Wescombe	Member, Audit Committee	\$ 36,000	\$ 16,500

(2) The amounts in this column represent the proportionate amount of the total fair value of stock awards recognized by the company in 2007 for financial accounting purposes, disregarding for this purpose the estimate of forfeitures related to service-based vesting conditions. The amounts included in the table for each award include the amount recorded as expense in our statement of operations for the year ended December 31, 2007. The fair values of these awards and the amounts expensed in 2007 were determined in accordance with Statement of Financial Accounting Standards, or SFAS, No. 123(R), *Share-Based Payment*, or SFAS No. 123(R).

The following table shows the shares of restricted common stock awarded to each independent director during 2007, and the aggregate grant date fair value for each award (computed in accordance with SFAS No. 123(R)).

Director	Grant Date	Number of Restricted Shares (#)	Full Grant Date Fair Value of Award (\$)
Peters			
Blair	6/12/07	2,500	\$ 25,000
DeWald	6/12/07	2,500	\$ 25,000
Fix	6/12/07	2,500	\$ 25,000
Mathis	4/12/07	5,000	\$ 50,000
Mathis	6/12/07	2,500	\$ 25,000
Wescombe	6/12/07	2,500	\$ 25,000

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The following table shows the aggregate number of nonvested restricted shares of common stock held by each director as of December 31, 2007:

Director	Nonvested Restricted Stock
Peters	
Blair	5,000
DeWald	5,000
Fix	5,000
Mathis	6,000
Wescombe	5,000

(3) Mr. Peters is not an independent director.

(4) Mr. Mathis has served as our director since April 12, 2007.

Table of Contents**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.****PRINCIPAL STOCKHOLDERS**

The following table shows, as of March 14, 2008, the amount 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 executive officers; and (4) all of our directors and executive officers as a group. The percentage of common stock beneficially owned is based on 26,440,418 shares of our common stock outstanding as of March 14, 2008. 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)	200	*
W. Bradley Blair, II(3)	7,500	*
Maurice J. DeWald(3)	7,500	*
Warren D. Fix(3)	8,094	*
Larry L. Mathis(3)	13,025	*
Gary T. Wescombe(3)	7,500	*
All directors and executive officers as a group (9 persons)	46,819	*

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

- (1) The address of each beneficial owner listed is c/o Grubb & Ellis Healthcare REIT, Inc., 1551 N. Tustin Avenue, Suite 300, Santa Ana, California 92705.
- (2) Includes 200 shares of our common stock owned by our advisor. Scott D. Peters is the chief executive officer of our advisor. Our advisor also owns 20,000 units of Grubb & Ellis Healthcare REIT Holdings, L.P., or our operating partnership.
- (3) Includes vested and non-vested shares of restricted common stock.

EQUITY COMPENSATION PLAN INFORMATION

Under the terms of our 2006 Incentive Plan, the aggregate number of shares of our common stock subject to options, restricted shares of 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.

Numbers of Securities to be Issued Upon	Weighted Average	Number of Securities
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Plan Category	Exercise of Outstanding Options, Warrants and Rights	Exercise Price of Outstanding Options, Warrants and Rights	Remaining Available for Future Issuance
Equity compensation plans approved by security holders(1)			1,962,500
Equity compensation plans not approved by security holders			
Total			1,962,500

(1) On September 20, 2006, October 4, 2006, April 12, 2007 and June 12, 2007, we granted 15,000 shares, 5,000 shares, 5,000 shares and 12,500 shares, respectively, of restricted common stock, as defined in the 2006 Incentive Plan, to our independent directors under the 2006 Independent Directors Compensation Plan. Such shares are not shown in the chart above as they are deemed outstanding shares of our common stock; however such grants reduce the number of securities remaining available for future issuance.

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Item 13. Certain Relationships and Related Transactions, and Director Independence.

Relationships Among Our Affiliates

Some of our executive officers and our non-independent director are also executive officers and/or holders of direct or indirect interests in our advisor, our sponsor, NNN Realty Advisors, Grubb & Ellis Realty Investors, Realty, or other affiliated entities.

Grubb & Ellis Realty Investors owns a 75.0% managing member interest in our advisor. Grubb & Ellis Healthcare Management, LLC owns a 25.0% non-managing member interest in our advisor. The members of Grubb & Ellis Healthcare Management, LLC include: (1) Scott D. Peters, our chief executive officer, president and chairman of the board, our advisor's chief executive officer, Grubb & Ellis' chief executive officer, president and director, NNN Realty Advisors' chief executive officer and chairman of the board, and Grubb & Ellis Realty Investors' chief executive officer; (2) Andrea R. Biller, our executive vice president and secretary, our advisor's executive vice president, Grubb & Ellis' executive vice president, secretary and general counsel, NNN Realty Advisors' executive vice president, secretary, general counsel, and director, and Grubb & Ellis Realty Investors' executive vice president and general counsel; and (3) Grubb & Ellis Realty Investors, for the benefit of other employees who perform services for us. As of March 25, 2008, each of Mr. Peters and Ms. Biller own 18.0% membership interests in Grubb & Ellis Healthcare Management, LLC. See Item 1. Business - Our Structure for an organizational chart.

Fees and Expenses Paid to Affiliates

Upon the effectiveness of our best efforts initial public offering, or our Offering, we entered into the Advisory Agreement and a dealer manager agreement, or the Dealer Manager Agreement, with Grubb & Ellis Securities, Inc., or Grubb & Ellis Securities, or our dealer manager. These agreements entitle our advisor, our dealer manager and their affiliates to specified compensation for certain services with regard to our Offering and the investment of funds in real estate assets, among other services, as well as reimbursement of organizational and offering expenses incurred. In the aggregate, for the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred to our advisor or its affiliates \$38,595,000 and \$312,000, respectively, as detailed below.

Offering Stage

Selling Commissions

Our dealer manager receives selling commissions of up to 7.0% of the gross offering proceeds from the sale of shares of our common stock in our Offering other than shares sold pursuant to the DRIP. Our dealer manager may re-allow all or a portion of these fees to participating broker-dealers. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred \$14,568,000 and \$0, respectively, in selling commissions to our dealer manager. Such commissions are charged to stockholders' equity (deficit) as such amounts are reimbursed to our dealer manager from the gross proceeds of our Offering.

Marketing Support Fee and Due Diligence Expense Reimbursements

Our dealer manager may receive non-accountable marketing support fees and due diligence expense reimbursements up to 2.5% of the gross offering proceeds from the sale of shares of our common stock in our Offering other than shares sold pursuant to the DRIP, and may re-allow up to 1.5% of the gross offering proceeds to participating

broker-dealers. In addition, we may reimburse our dealer manager or its affiliates an additional accountable 0.5% of the gross offering proceeds for bona fide due diligence expenses and may re-allow all or a portion of these fees up to 0.5% of the gross offering proceeds to participating broker-dealers. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred \$5,382,000 and \$0, respectively, in marketing support fees and due diligence expense reimbursements to our dealer manager. Such fees and reimbursements are charged to stockholders

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equity (deficit) as such amounts are reimbursed to our dealer manager or its affiliates from the gross proceeds of our Offering.

Other Organizational and Offering Expenses

Our organizational and offering expenses are paid by our advisor or Grubb & Ellis Realty Investors on our behalf. Our advisor or Grubb & Ellis Realty Investors may be reimbursed for actual expenses incurred for up to 1.5% of the gross offering proceeds from the sale of shares of our common stock in our Offering other than shares sold pursuant to the DRIP. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred \$3,170,000 and \$0, respectively, in other organizational and offering expenses to our advisor or Grubb & Ellis Realty Investors. Other organizational expenses are expensed as incurred, and offering expenses are charged to stockholders' equity (deficit) as such amounts are reimbursed to our advisor or Grubb & Ellis Realty Investors from the gross proceeds of our Offering.

Acquisition and Development Stage

Acquisition Fees

Our advisor or its affiliates receive, as compensation for services rendered in connection with the investigation, selection and acquisition of properties, an acquisition fee of up to 3.0% of the contract purchase price for each property acquired or up to 4.0% of the total development cost of any development property acquired, as applicable. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred \$12,253,000 and \$0, respectively, in acquisition fees to our advisor or its affiliates. Acquisition fees are capitalized as part of the purchase price allocations.

Reimbursement of Acquisition Expenses

Our advisor or its affiliates will be reimbursed for acquisition expenses related to selecting, evaluating, acquiring and investing in properties. Acquisition expenses, excluding amounts paid to third parties, will not exceed 0.5% of the purchase price of the properties. The reimbursement of acquisition fees and expenses, including real estate commissions paid to unaffiliated parties, will not exceed, in the aggregate, 6.0% of the purchase price or total development costs, unless fees in excess of such limits are approved by a majority of our disinterested independent directors. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred \$11,000 and \$0, respectively, for such expenses to our advisor or its affiliates, excluding amounts our advisor or its affiliates paid directly to third parties. Acquisition expenses are capitalized as part of the purchase price allocations.

Operational Stage

Asset Management Fee

Our advisor or its affiliates are paid a monthly fee for services rendered in connection with the management of our assets equal to one-twelfth of 1.0% of the average invested assets calculated as of the close of business on the last day of each month, subject to our stockholders receiving annualized distributions in an amount equal to 5.0% per annum on average invested capital. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred \$1,590,000 and \$0, respectively, in asset management fees to our advisor or its affiliates, which is included in general and administrative in our accompanying consolidated statements of operations.

Property Management Fees

Our advisor or its affiliates are paid a monthly property management fee equal to 4.0% of the gross cash receipts from each property managed. For properties managed by other third parties besides our advisor or its affiliates, our advisor or its affiliates will be paid up to 1.0% of the gross cash receipts from the property for a monthly oversight fee. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred \$591,000 and \$0, respectively, in property management

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fees and oversight fees to our advisor or its affiliates, which is included in rental expenses in our accompanying consolidated statements of operations.

Lease Fees

Our advisor, its affiliates or unaffiliated third parties, as the property manager, may receive a separate fee for leasing activities in an amount not to exceed the fee customarily charged in arm's length transactions by others rendering similar services in the same geographic area for similar properties, as determined by a survey of brokers and agents in such area ranging between 3.0% and 8.0% of gross revenues generated from the initial term of the lease. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred \$265,000 and \$0, respectively, to Grubb & Ellis Realty Investors in lease fees.

On-site Personnel and Engineering Payroll

For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, Grubb & Ellis Realty Investors incurred payroll for on-site personnel and engineering on our behalf of \$162,000 and \$0, respectively, which is included in rental expenses in our accompanying consolidated statements of operations.

Operating Expenses

We reimburse our advisor or its affiliates for expenses incurred in rendering its services to us, subject to certain limitations on our operating expenses. However, we cannot reimburse our advisor and affiliates for fees and costs that exceed the greater of: (1) 2.0% of our average invested assets, as defined in the Advisory Agreement, or (2) 25.0% of our net income, as defined in the Advisory Agreement, unless our board of directors determines that such excess expenses were justified based on unusual and non-recurring factors. For the twelve months ended December 31, 2007, our operating expenses did not exceed this limitation. Our operating expenses as a percentage of average invested assets and as a percentage of net income were 1.8% and 139.7%, respectively, for the twelve months ended December 31, 2007.

For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, Grubb & Ellis Realty Investors incurred on our behalf \$515,000 and \$312,000, respectively, in operating expenses which is included in general and administrative in our accompanying consolidated statements of operations or prepaid expenses on our accompanying consolidated balance sheets, as applicable.

Compensation for Additional Services

Our advisor or its affiliates will be paid for services performed for us other than those required to be rendered by our advisor or its affiliates, under the Advisory Agreement. The rate of compensation for these services must be approved by a majority of our board of directors, and cannot exceed an amount that would be paid to unaffiliated third parties for similar services. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred \$3,000 and \$0, respectively, for tax services an affiliate provided to us.

Liquidity Stage

Disposition Fees

Our advisor or its affiliates will be paid, for services relating to a sale of one or more properties, a disposition fee up to the lesser of 1.75% of the contract sales price or 50.0% of a customary competitive real estate commission given the

circumstances surrounding the sale, in each case as determined by our board of directors and will not exceed market norms. The amount of disposition fees paid, including real estate commissions paid to unaffiliated parties, will not exceed the lesser of the customary competitive disposition fee or an amount equal to 6.0% of the contract sales price. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we did not incur such fees.

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Subordinated Distribution of Net Sales Proceeds

Upon liquidation of our portfolio, our advisor will be paid a subordinated distribution of net sales proceeds. The distribution will be equal to 15.0% of the net proceeds from the sales of properties, after subtracting distributions to our stockholders of (1) their initial contributed capital (less amounts paid to repurchase shares pursuant to our share repurchase program) plus (2) an annual cumulative, non-compounded return of 8.0% on average invested capital. Actual amounts depend upon the sales prices of properties upon liquidation. For the year ended December 31, 2007 and for the period April 28, 2006 (Date of Inception) through December 31, 2006, we did not incur such distributions.

Subordinated Distribution Upon Listing

Upon the listing of our shares of common stock on a national securities exchange, our advisor will be paid a distribution equal to 15.0% of the amount by which (1) the market value of our outstanding common stock at listing plus distributions paid prior to listing exceeds (2) the sum of total amount of capital raised from stockholders (less amounts paid to repurchase shares pursuant to our share repurchase plan) and the amount of cash that, if distributed to stockholders as of the date of listing, would have provided them an annual 8.0% cumulative, non-compounded return on average invested capital through the date of listing. Actual amounts depend upon the market value of shares of our common stock at the time of listing, among other factors. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we did not incur such distributions.

Subordinated Distribution Upon Termination

Upon termination of the Advisory Agreement, other than a termination by us for cause, our advisor will be entitled to receive a distribution from our operating partnership in an amount equal to 15.0% of the amount, if any, by which (1) the fair market value of all of the assets of our operating partnership as of the date of the termination (determined by appraisal), less any indebtedness secured by such assets, plus the cumulative distributions made to us by our operating partnership from our inception through the termination date, exceeds (2) the sum of the total amount of capital raised from stockholders (less amounts paid to redeem shares pursuant to our share repurchase plan) plus an annual 8.0% cumulative, non-compounded return on average invested capital through the termination date. However, our advisor will not be entitled to this distribution if our shares have been listed on a national securities exchange prior to the termination of the Advisory Agreement.

Accounts Payable Due to Affiliates, Net

The following amounts were outstanding to affiliates as of December 31, 2007 and 2006:

Entity	Fee	December 31, 2007	December 31, 2006
Grubb & Ellis Realty Investors	Operating Expenses	\$ 79,000	\$ 312,000
Grubb & Ellis Realty Investors	Offering Costs	798,000	
Grubb & Ellis Realty Investors	Due Diligence	25,000	
Grubb & Ellis Realty Investors	On-site Payroll and Engineering	51,000	
Grubb & Ellis Realty Investors	Acquisition Related Expenses	4,000	
Grubb & Ellis Securities	Selling Commissions, Marketing Support Fees	288,000	

	and Due Diligence Expense			
	Reimbursements			
Realty	Asset and Property Management Fees	941,000		
Realty	Lease Commissions	170,000		
		\$ 2,356,000	\$	312,000

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For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we entered into, and subsequently paid down, the following unsecured loans with NNN Realty Advisors, evidenced by unsecured promissory notes:

Date of Note	Amount	Maturity Date	Interest Rate	Default Interest Rate	Date Paid in Full
01/22/07	\$ 7,500,000	07/22/07	6.86%	8.86%	03/28/07
03/09/07	\$ 1,000,000	09/09/07	6.84%	8.84%	03/28/07
06/08/07	\$ 4,000,000	12/08/07	6.82%	8.82%	06/18/07
08/30/07	\$ 1,300,000	03/01/08	6.85%	8.85%	09/04/07
09/05/07	\$ 6,100,000	03/05/08	6.86%	8.86%	09/11/07

The unsecured notes bore interest at a fixed rate and required monthly interest-only payments for the terms of the unsecured notes. As of December 31, 2007 and 2006, we had no outstanding balances under the unsecured note payables to affiliate.

Because these loans were related party loans, the terms of the loans and the unsecured notes were approved by our board of directors, including a majority of our independent directors, and deemed fair, competitive and commercially reasonable by our board of directors.

For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred interest expense to NNN Realty Advisors of \$84,000 and \$0, respectively.

Certain Conflict Resolution Restrictions and Procedures

In order to reduce or eliminate certain potential conflicts of interest, our charter and the Advisory Agreement contain restrictions and conflict resolution procedures relating to (1) transactions we enter into with our advisor, our directors or their respective affiliates, (2) certain future offerings and (3) allocation of properties among affiliated entities. Each of the restrictions and procedures that applies to transactions with our advisor and its affiliates will also apply to any transaction with any entity or real estate program advised, managed or controlled by NNN Realty Advisors and its affiliates. These restrictions and procedures include, among others, the following:

Except as otherwise described in our Registration Statement on Form S-11 (File No. 333-133652, effective September 20, 2006) filed with the SEC, or our Offering prospectus, we will not accept goods or services from our advisor or its affiliates unless a majority of our directors, including a majority of the independent directors, not otherwise interested in the transactions, approve such transactions as fair, competitive and commercially reasonable to us and on terms and conditions not less favorable to us than those available from unaffiliated third parties.

We will not purchase or lease any asset (including any property) in which our advisor, any of our directors or any of their respective affiliates has an interest without a determination by a majority of our directors, including a majority of the independent directors, not otherwise interested in such transaction, that such transaction is fair and reasonable to us and at a price to us no greater than the cost of the property to our advisor, such director or directors or any such affiliate, unless there is substantial justification for any amount that exceeds such cost and such excess amount is determined to be reasonable. In no event will we acquire any such asset at an amount in excess of its appraised value. We will not sell or lease assets to our advisor any of

our directors or any of their respective affiliates unless a majority of our directors, including a majority of the independent directors, not otherwise interested in the transaction, determine the transaction is fair and reasonable to us, which determination will be supported by an appraisal obtained from a qualified, independent appraiser selected by a majority of our independent directors.

We will not make any loans to our advisor, any of our directors or any of their respective affiliates. In addition, any loans made to us by our advisor, our directors or any of their respective affiliates must be

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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.

Our advisor and its affiliates shall be entitled to reimbursement, at cost, for actual expenses incurred by them on our behalf or on behalf of joint ventures in which we are a joint venture partner, subject to the limitation on reimbursement of operating expenses to the extent that they exceed the greater of 2.0% of our average invested assets or 25.0% of our net income, as described above.

Our Advisory Agreement provides that if Grubb & Ellis Realty Investors identifies an opportunity to make an investment in one or more office buildings or other facilities for which greater than 50.0% of the gross leaseable area is leased to, or reasonably expected to be leased to, one or more medical or healthcare-related tenants, either directly or indirectly through an affiliate or in a joint venture or other co-ownership arrangement, for itself or for any other Grubb & Ellis program, then Grubb & Ellis Realty Investors will provide us with the first opportunity to purchase such investment. Grubb & Ellis Realty Investors will provide all necessary information related to such investment to our advisor, in order to enable our board of directors to determine whether to proceed with such investment. Our advisor will present the information to our board of directors within three business days of receipt from Grubb & Ellis Realty Investors. If our board of directors does not affirmatively authorize our advisor to proceed with the investment on our behalf within seven days of receipt of such information from our advisor, then Grubb & Ellis Realty Investors may proceed with the investment opportunity for its own account or offer the investment opportunity to any other person or entity.

Director Independence

We have a six-member board of directors. One of our directors, Scott D. Peters, is affiliated with us and we do not consider him to be an independent director. The remaining directors qualify as independent directors as defined in our charter in compliance with the requirements of the North American Securities Administrators Association's Statement of Policy Regarding Real Estate Investment Trusts. Our charter provides that a majority of the directors must be independent directors. As defined in our charter, the term independent director means a director who is not on the date of determination, and within the last two years from the date of determination has not been, directly or indirectly associated with our sponsor or our advisor by virtue of (i) ownership of an interest in our sponsor, our advisor or any of their affiliates, other than the Corporation; (ii) employment by our sponsor, our advisor or any of their affiliates; (iii) service as an officer or director of our sponsor, our advisor or any of their affiliates; (iv) performance of services, other than as a director for us; (v) service as a director or trustee of more than three REITs organized by our sponsor or advised by our advisor; or (vi) maintenance of a material business or professional relationship with our sponsor, our advisor or any of their affiliates.

Each of our independent directors would also qualify as independent under the rule of the New York Stock Exchange and our Audit Committee members would qualify as independent under the New York Stock Exchange's rules applicable to Audit Committee members. However, our stock is not listed on the New York Stock Exchange.

Item 14. Principal Accounting Fees and Services.

Deloitte & Touche, LLP has served as our independent auditors since April 24, 2006 and audited our consolidated financial statements for the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006.

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The following table lists the fees for services rendered by our independent auditors for 2007 and 2006:

Services	2007	2006
Audit fees (1)	\$ 428,000	\$ 59,000
Audit related fees (2)	8,000	
Tax fees (3)	2,000	
All other fees		
Total	\$ 438,000	\$ 59,000

(1) Audit fees billed in 2007 and 2006 consisted of the audit of our annual consolidated financial statements, a review of our quarterly consolidated financial statements, and statutory and regulatory audits, consents and other services related to filings with the SEC, including filings related to our Offering.

(2) Audit-related fees consist of financial accounting and reporting consultations.

(3) Tax services consist of tax compliance and tax planning and advice.

The audit committee preapproves all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for us by our independent auditor, subject to the de minimis exceptions for non-audit services described in Section 10A(i)(1)(b) of the Exchange Act and the rules and regulations of the SEC.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1) *Financial Statements:*

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	92
<u>Consolidated Balance Sheets as of December 31, 2007 and 2006</u>	93
<u>Consolidated Statements of Operations for the Year Ended December 31, 2007 and for the Period from April 28, 2006 (Date of Inception) through December 31, 2006</u>	94
<u>Consolidated Statements of Stockholders' Equity (Deficit) for the Year Ended December 31, 2007 and for the Period from April 28, 2006 (Date of Inception) through December 31, 2006</u>	95
<u>Consolidated Statements of Cash Flows for the Year Ended December 31, 2007 and for the Period from April 28, 2006 (Date of Inception) through December 31, 2006</u>	96
<u>Notes to Consolidated Financial Statements</u>	97

(a)(2) *Financial Statement Schedules:*

The following financial statement schedules for the year ended December 31, 2007 are submitted herewith:

	Page
<u>Valuation and Qualifying Accounts (Schedule II)</u>	131
<u>Real Estate Operating Properties and Accumulated Depreciation (Schedule III)</u>	132

(a)(3) *Exhibits:*

The exhibits listed on the Exhibit Index (following the signatures section of this report) are included, or incorporated by reference, in this annual report.

(b) *Exhibits:*

See item 15(a)(3) above.

(c) *Financial Statement Schedules:*

	Page
Valuation and Qualifying Accounts (Schedule II)	131
Real Estate Operating Properties and Accumulated Depreciation (Schedule III)	132

SUPPLEMENTAL INFORMATION TO BE FURNISHED WITH REPORTS FILED PURSUANT TO SECTION 15(D) OF THE ACT BY REGISTRANTS WHICH HAVE NOT REGISTERED SECURITIES PURSUANT TO SECTION 12 OF THE ACT.

The registrant has not sent an annual report or proxy materials to its stockholders. The registrant will furnish each stockholder with an annual report and proxy materials within 120 days following the close of each fiscal year and will furnish copies of such report and proxy materials to the Securities and Exchange Commission when they are sent to stockholders.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Grubb & Ellis Healthcare REIT, Inc.

We have audited the accompanying consolidated balance sheets of Grubb & Ellis Healthcare REIT, Inc. and subsidiaries (the Company) as of December 31, 2007 and 2006 and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006. Our audits also included the consolidated financial statement schedules listed in the index at Item 15. These consolidated financial statements and the consolidated financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the consolidated financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects, the information set forth therein.

/s/ Deloitte & Touche, LLP

Los Angeles, California
March 25, 2008

Table of Contents**Grubb & Ellis Healthcare REIT, Inc.****CONSOLIDATED BALANCE SHEETS****As of December 31, 2007 and 2006**

	December 31, 2007	December 31, 2006
ASSETS		
Real estate investments:		
Operating properties, net	\$ 352,994,000	\$
Cash and cash equivalents	5,467,000	202,000
Accounts and other receivables, net	1,233,000	
Restricted cash	4,605,000	
Identified intangible assets, net	62,921,000	
Other assets, net	4,392,000	183,000
Total assets	\$ 431,612,000	\$ 385,000
LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS EQUITY (DEFICIT)		
Liabilities:		
Mortgage loan payables, net	\$ 185,801,000	\$
Line of credit	51,801,000	
Accounts payable and accrued liabilities	7,983,000	62,000
Accounts payable due to affiliates, net	2,356,000	312,000
Derivative financial instruments	1,377,000	
Security deposits, prepaid rent and other liabilities	1,974,000	
Identified intangible liabilities, net	1,639,000	
Total liabilities	252,931,000	374,000
Commitments and contingencies (Note 10)		
Minority interests of limited partners	3,091,000	200,000
Stockholders' equity (deficit):		
Preferred stock, \$0.01 par value; 200,000,000 shares authorized; none issued and outstanding		
Common stock, \$0.01 par value; 1,000,000,000 shares authorized; 21,449,451 and 20,200 shares issued and outstanding as of December 31, 2007 and 2006, respectively	214,000	
Additional paid-in capital	190,534,000	53,000
Accumulated deficit	(15,158,000)	(242,000)
Total stockholders' equity (deficit)	175,590,000	(189,000)
Total liabilities, minority interests and stockholders' equity (deficit)	\$ 431,612,000	\$ 385,000

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

Table of Contents**Grubb & Ellis Healthcare REIT, Inc.**

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Year Ended December 31, 2007 and
for the Period from April 28, 2006 (Date of Inception) through December 31, 2006

	Year Ended December 31, 2007	Period from April 28, 2006 (Date of Inception) through December 31, 2006
Revenues:		
Rental income	\$ 17,626,000	\$
Expenses:		
Rental expenses	6,037,000	
General and administrative	3,297,000	242,000
Depreciation and amortization	9,790,000	
Total expenses	19,124,000	242,000
Loss before other income (expense)	(1,498,000)	(242,000)
Other income (expense):		
Interest expense (including amortization of deferred financing costs and debt discount):		
Interest expense related to note payables to affiliate	(84,000)	
Interest expense related to mortgage loan payables and line of credit	(4,939,000)	
Loss on derivative financial instruments	(1,377,000)	
Interest and dividend income	224,000	
Minority interests	8,000	
Net loss	\$ (7,666,000)	\$ (242,000)
Net loss per share basic and diluted	\$ (0.77)	\$ (149.03)
Weighted-average number of shares outstanding basic and diluted	9,952,771	1,622
Distributions declared per common share	\$ 0.70	\$

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

Table of Contents**Grubb & Ellis Healthcare REIT, Inc.**

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)
For the Year Ended December 31, 2007
and for the Period from April 28, 2006 (Date of Inception)
through December 31, 2006

	Common Stock		Additional Preferred		Accumulated	Total
	Number of		Paid-In	Stock	Deficit	Stockholders
	Shares	Amount	Capital			Equity
						(Deficit)
BALANCE April 28, 2006 (Date of Inception)		\$	\$	\$	\$	\$
Issuance of common stock	200		2,000			2,000
Issuance of vested and nonvested restricted common stock	20,000		40,000			40,000
Amortization of nonvested common stock compensation			11,000			11,000
Net loss					(242,000)	(242,000)
BALANCE December 31, 2006	20,200		53,000		(242,000)	(189,000)
Issuance of common stock	21,130,370	211,000	210,835,000			211,046,000
Issuance of vested and nonvested restricted common stock	17,500		35,000			35,000
Offering costs			(23,120,000)			(23,120,000)
Amortization of nonvested common stock compensation			61,000			61,000
Issuance of common stock under the DRIP	281,381	3,000	2,670,000			2,673,000
Distributions					(7,250,000)	(7,250,000)
Net loss					(7,666,000)	(7,666,000)
BALANCE December 31, 2007	21,449,451	\$ 214,000	\$ 190,534,000	\$	\$ (15,158,000)	\$ 175,590,000

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

Table of Contents**Grubb & Ellis Healthcare REIT, Inc.**

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2007 and for the Period from
April 28, 2006 (Date of Inception) through December 31, 2006

	Year Ended December 31, 2007	Period from April 28, 2006 (Date of Inception) through December 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (7,666,000)	\$ (242,000)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization (including deferred financing costs, above/below market leases, debt discount, leasehold interests and lease inducements)	9,466,000	
Stock based compensation, net of forfeitures	96,000	51,000
Change in fair value of derivative instruments	1,377,000	
Minority interests	(8,000)	
Changes in operating assets and liabilities:		
Prepaid expenses		(180,000)
Accounts and other receivables, net	(1,114,000)	
Other assets	(655,000)	(3,000)
Accounts payable and accrued liabilities	4,721,000	62,000
Accounts payable due to affiliates, net	927,000	312,000
Prepaid rent	(139,000)	
Net cash provided by operating activities	7,005,000	
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of real estate operating properties	(380,398,000)	
Capital expenditures	(437,000)	
Restricted cash	(4,605,000)	
Net cash used in investing activities	(385,440,000)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on mortgage loan payables	148,906,000	
Borrowings on unsecured note payables to affiliate	19,900,000	
Borrowings under the line of credit, net	51,801,000	
Payments on unsecured note payables to affiliate	(19,900,000)	
Payments on mortgage loan payables	(151,000)	
Proceeds from issuance of common stock	210,937,000	2,000
Minority interest contributions to our operating partnership		200,000

Security deposits	35,000	
Deferred financing costs	(2,496,000)	
Payment of offering costs	(22,009,000)	
Distributions	(3,323,000)	
Net cash provided by financing activities	383,700,000	202,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,265,000	202,000
CASH AND CASH EQUIVALENTS Beginning of period	202,000	
CASH AND CASH EQUIVALENTS End of period	\$ 5,467,000	\$ 202,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	\$ 4,328,000	\$
Income taxes	\$ 2,000	\$
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:		
Investing Activities:		
Capital expenditures	\$ 609,000	\$
The following represents the increase in certain assets and liabilities in connection with our acquisitions of operating properties:		
Accounts and other receivables, net	\$ 10,000	\$
Other assets	\$ 715,000	\$
Mortgage loan payables, net	\$ 37,039,000	\$
Accounts payable and accrued liabilities	\$ 1,459,000	\$
Accounts payable due to affiliates, net	\$ 5,000	\$
Security deposits, prepaid rent and other liabilities	\$ 1,952,000	\$
Minority interest contribution	\$ 2,899,000	\$
Financing Activities:		
Issuance of common stock under the DRIP	\$ 2,673,000	\$
Distributions declared but not paid	\$ 1,254,000	\$
Accrued offering costs	\$ 1,111,000	\$
Receivable from transfer agent for issuance of common stock	\$ 109,000	\$

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

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Grubb & Ellis Healthcare REIT, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2007 and for the Period from April 28, 2006
(Date of Inception) through December 31, 2006

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

1. Organization and Description of Business

Grubb & Ellis Healthcare REIT, Inc. (formerly known as NNN Healthcare/Office REIT, Inc.), a Maryland corporation, was incorporated on April 20, 2006. We were initially capitalized on April 28, 2006 and therefore we consider that our date of inception. We provide stockholders the potential for income and growth through investment in a diversified portfolio of real estate properties, focusing primarily on medical office buildings, healthcare-related facilities and quality commercial office properties. We may also invest in real estate related securities. We focus primarily on investments that produce current income. We intend to elect to be treated as a real estate investment trust, or REIT, for federal income tax purposes for our taxable year ended December 31, 2007 when we file our fiscal year 2007 tax return.

We are conducting a best efforts initial public offering, or our Offering, in which we are offering up to 200,000,000 shares of our common stock for \$10.00 per share and 21,052,632 shares of our common stock pursuant to our distribution reinvestment plan, or the DRIP, at \$9.50 per share, aggregating up to \$2,200,000,000. As of March 14, 2008, we had received and accepted subscriptions in our Offering for 25,933,558 shares of our common stock, or \$259,042,000, excluding shares issued under the DRIP.

We conduct substantially all of our operations through Grubb & Ellis Healthcare REIT Holdings, L.P. (formerly known as NNN Healthcare/Office REIT Holdings, L.P.), or our operating partnership. We are externally advised by Grubb & Ellis Healthcare REIT Advisor, LLC (formerly known as NNN Healthcare/Office REIT Advisor, LLC), or our advisor, pursuant to an advisory agreement, or the Advisory Agreement, between us, our advisor and Grubb & Ellis Realty Investors, LLC, or Grubb & Ellis Realty Investors (formerly known as Triple Net Properties, LLC), who is the managing member of our advisor. The Advisory Agreement had a one-year term that expired on September 19, 2007 and was subject to successive one-year renewals upon the mutual consent of the parties. On September 18, 2007, our board of directors extended the Advisory Agreement on a month-to-month basis. On October 24, 2007, our board of directors authorized the renewal of our Advisory Agreement for a term of one year ending on October 24, 2008. Our advisor supervises and manages our day-to-day operations and selects the properties and securities we acquire, subject to the oversight by our board of directors. Our advisor also provides marketing, sales and client services on our behalf. Our advisor is affiliated with us in that we and our advisor have common officers, some of whom also own an indirect equity interest in our advisor. Our advisor engages affiliated entities, including Triple Net Properties Realty, Inc., or Realty, to provide various services to us, including property management services.

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

Healthcare REIT Advisor, LLC, Grubb & Ellis Healthcare Management, LLC, Grubb & Ellis Realty Investors, LLC and Grubb & Ellis Securities, Inc., respectively.

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2007, we had purchased 20 properties comprising 2,233,000 square feet of gross leasable area, or GLA.

2. Summary of Significant Accounting Policies

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

Basis of Presentation

Our accompanying consolidated financial statements include our accounts and those of our operating partnership, the wholly owned subsidiaries of our operating partnership and any variable interest entities, as defined, in Financial Accounting Standards Board Interpretation, or FIN, No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51*, as revised, or FIN No. 46(R), that we have concluded should be consolidated. We operate and intend to continue to operate in an umbrella partnership REIT structure in which our operating partnership, or wholly-owned subsidiaries of our operating partnership, will own substantially all of the properties acquired on our behalf. We are the sole general partner of our operating partnership and as of December 31, 2007 and 2006, we owned a 99.99% and 1.0%, respectively, general partnership interest therein. Our advisor is a limited partner and as of December 31, 2007 and 2006, owned a 0.01% and 99.0%, respectively, limited partnership interest therein. Our advisor is also entitled to certain subordinated distribution rights under the partnership agreement for our operating partnership. Because we are the sole general partner of our operating partnership and have unilateral control over its management and major operating decisions (even if additional limited partners are admitted to our operating partnership), the accounts of our operating partnership are consolidated in our consolidated financial statements. All significant intercompany accounts and transactions are eliminated in consolidation.

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.

Cash and Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments with a maturity of three months or less when purchased.

Restricted Cash Held in Escrow

Restricted funds held in escrow of \$1,802,000, including funds received from shares sold to our executive officers and directors, Grubb & Ellis Securities, Inc., or Grubb & Ellis Securities, or our dealer manager, and our advisor and its affiliates, as of December 31, 2006 are not included in assets and consist of funds received in connection with subscription agreements to purchase shares of our common stock in connection with our Offering. We were required to raise \$2,000,000, or the minimum offering, on or before September 20, 2007 (one year following the commencement of our Offering), or the funds raised, including interest, would have

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

been returned to the subscribers. Therefore, as of December 31, 2006, the funds were held in an escrow account and were not released to or available to us until the minimum offering was raised.

On January 8, 2007, we raised the minimum offering and the funds held in escrow were released to us.

Restricted Cash

Restricted cash is comprised of impound reserve accounts for property taxes, insurance, capital improvements and tenant improvements.

Revenue Recognition, Tenant Receivables and Allowance for Uncollectible Accounts

In accordance with Statement of Financial Accounting Standards, or SFAS No. 13, *Accounting for Leases*, or SFAS No. 13, as amended and interpreted, 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 will be 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 Emerging Issues Task Force, or EITF, Issue 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*, or Issue 99-19. Issue 99-19 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 will also maintain an allowance for deferred rent receivables arising from the straight-lining of rents. Our determination of the adequacy of these allowances is based primarily upon evaluations of historical loss experience, individual tenant receivables considering the tenant's financial condition, security deposits, letters of credit, lease guarantees and current economic conditions and other relevant factors. As December 31, 2007 and 2006, we had \$7,000 and \$0, respectively, in allowances for uncollectible accounts as determined to be necessary to reduce receivables to our estimate of the amount recoverable.

Properties Held for Sale

We account for our properties held for sale in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets*, or SFAS No. 144, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and requires that, in a period in which a component of an entity either has been disposed of or is classified as held for sale, the statements of operations for current and prior periods shall report the results of operations of the component as discontinued operations.

In accordance with SFAS No. 144, at such time as a property is held for sale, such property is carried at the lower of (i) its carrying amount or (ii) fair value less costs to sell. In addition, a property being held for sale ceases to be depreciated. We classify operating properties as property held for sale in the period in which all of the following criteria are met:

management, having the authority to approve the action, commits to a plan to sell the asset;

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets;

an active program to locate a buyer and other actions required to complete the plan to sell the asset has been initiated;

the sale of the asset is probable and the transfer of the asset is expected to qualify for recognition as a completed sale within one year;

the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and

given the actions required to complete the plan to sell the asset, it is unlikely that significant changes to the plan would be made or that the plan would be withdrawn.

Purchase Price Allocation

In accordance with SFAS, No. 141, *Business Combinations*, we, with the assistance of 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 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: (i) the contractual amounts to be paid pursuant to the lease over its remaining term, and (ii) our estimate of the amounts that would be paid using fair market rates over the remaining term of the lease. The amounts allocated to above market leases are included in identified intangible assets, net and below market lease values are included in identified intangible liabilities, net on our accompanying consolidated balance sheets and are amortized to rental income over the weighted-average remaining term 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 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 fixed rate mortgage and the cash flow stream of a market fixed rate mortgage. The amounts allocated to above or below market debt are included in mortgage loan payables, net on our accompanying consolidated balance sheets and are 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.

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Operating Properties

Operating properties are carried at the lower of fair market value or historical cost less accumulated depreciation. The cost of the operating properties includes the cost of land and completed buildings and related improvements. Expenditures that increase the service life of the properties are capitalized and the cost of maintenance and repairs is charged to expense as incurred. The cost of buildings is depreciated on a straight-line basis over the estimated useful lives of the buildings up to 39 years and for tenant improvements, the shorter of the lease term or useful life, ranging from one month to 236 months. When depreciable property is retired or disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is reflected in operations.

An operating property is evaluated for potential impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Impairment losses are recorded on long-lived assets and tenant improvements used in operations. Impairment losses are recorded on an operating property when indicators of impairment are present and the carrying amount of the asset is greater than the sum of the future undiscounted cash flows expected to be generated by that asset. We would recognize an impairment loss to the extent the carrying amount exceeded the fair value of the property. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, there were no impairment losses recorded.

Other Assets

Other assets consist primarily of deferred rent receivables, leasing commissions, prepaid expenses, deposits and deferred financing costs. Costs incurred for property leasing have been capitalized as deferred assets. Deferred leasing costs include leasing commissions that are amortized using the straight-line method over the term of the related lease. Deferred financing costs include amounts paid to lenders and others to obtain financing. Such costs are amortized using the straight-line method over the term of the related loan, which approximates the effective interest rate method. Amortization of deferred financing costs is included in interest expense in our accompanying consolidated statements of operations.

Fair Value of Financial Instruments

SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*, or SFAS No. 107, requires disclosure of the fair value of financial instruments, whether or not recognized on the face of the balance sheet. SFAS No. 107 defines fair value as the quoted market prices for those instruments that are actively traded in financial markets. In cases where quoted market prices are not available, fair values are estimated using present value or other valuation techniques. The fair value estimates are made at the end of each year based on available market information and judgments about the financial instrument, such as estimates of timing and amount of expected future cash flows. Such estimates do not reflect any premium or discount that could result from offering for sale at one time our entire holdings of a particular financial instrument, nor do they consider the tax impact of the realization of unrealized gains or losses. In many cases, the fair value estimates cannot be substantiated by comparison to independent markets, nor can the disclosed value be realized in immediate settlement of the instrument.

Our consolidated balance sheets include the following financial instruments: cash and cash equivalents, restricted cash, accounts and other receivables, accounts payable and accrued liabilities, accounts payable due to affiliates, net, mortgage loan payables and borrowings under the line of credit. We consider the carrying values of cash and cash

equivalents, restricted cash, accounts and other receivables and accounts payable and accrued liabilities to approximate fair value for these financial instruments because of the short period of time between origination of the instruments and their expected realization. The fair value of accounts payable due to affiliates, net is not determinable due to the related party nature.

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The fair value of the mortgage loan payable is estimated using borrowing rates available to us for mortgage loan payables with similar terms and maturities. As of December 31, 2007, the fair value of the mortgage loan payables was \$181,067,000, compared to the carrying value of \$185,801,000. The fair value of our secured revolving line of credit with LaSalle and KeyBank (See Note 8, Line of Credit) as of December 31, 2007 was \$51,801,000, compared to a carrying value of \$51,801,000.

Derivative Financial Instruments

We are exposed to the effect of interest rate changes in the normal course of business. We seek to mitigate these risks by following established risk management policies and procedures which include the occasional use of derivatives. Our primary strategy in entering into derivative contracts is to minimize the volatility that changes in interest rates could have on our future cash flows. We employ derivative instruments, including interest rate swaps and caps, to effectively convert a portion of our variable-rate debt to fixed-rate debt. We do not enter into derivative instruments for speculative purposes.

Derivatives are recognized as either assets or liabilities in our consolidated balance sheet and are measured at fair value in accordance with SFAS No. 133, *Derivative Instruments and Hedging Activities*, or SFAS No. 133. Since our derivative instruments are not designated as hedge instruments, they do not qualify for hedge accounting under SFAS No. 133, and accordingly, changes in fair value are included as a component of interest expense in our consolidated statements of operations in the period of change.

Concentration of Credit Risk

Financial instruments that potentially subject us to a concentration of credit risk are primarily cash and cash equivalents and accounts receivable from tenants. We have cash in financial institutions that is insured by the Federal Deposit Insurance Corporation, or FDIC, up to \$100,000 per institution. As of December 31, 2007 and 2006, we had cash and cash equivalent accounts in excess of FDIC insured limits. We believe this risk is not significant. Concentration of credit risk with respect to accounts receivable from tenants is limited. We perform credit evaluations of prospective tenants, and security deposits are obtained upon lease execution. In addition, we evaluate tenants in connection with the acquisition of a property.

Table of Contents**Grubb & Ellis Healthcare REIT, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of December 31, 2007, we owned consolidated properties located in various states as follows:

Property	State (Property Location)	2007 Annual Base Rent *	Percentage of 2007 Annual Base Rent
Thunderbird Medical Plaza	AZ	\$ 1,868,000	5.1%
Tucson Medical Office Portfolio	AZ	1,516,000	4.2
Arizona Sub-total		3,384,000	9.3
Commons V Medical Office Building	FL	1,109,000	3.0
East Florida Senior Care Portfolio	FL	4,095,000	11.2
Florida Sub-total		5,204,000	14.2
Yorktown Medical Center and Shakerag Medical Center	GA	2,405,000	6.6
Gwinnett Professional Center	GA	1,136,000	3.1
Northmeadow Medical Center	GA	1,144,000	3.1
Georgia Sub-total		4,685,000	12.8
Southpointe Office Parke and Epler Parke I Crawfordsville Medical Office Park and Athens Surgery Center	IN	1,257,000	3.5
Kokomo Medical Office Park	IN	578,000	1.6
Indiana Sub-total		1,319,000	3.7
1 and 4 Market Exchange	OH	3,154,000	8.8
Lima Medical Office Portfolio	OH	1,698,000	4.7
Park Place Office Park	OH	1,917,000	5.3
Ohio Sub-total		1,879,000	5.1
St. Mary Physicians Center	CA	5,494,000	15.1
Highlands Ranch Medical Plaza	CO	1,400,000	3.8
The Gallery Professional Building	MN	1,651,000	4.5
Chesterfield Rehabilitation Center	MO	986,000	2.7
2750 Monroe Boulevard	PA	2,962,000	8.1
Lenox Office Park, Building G	TN	2,623,000	7.2
		2,134,000	5.9

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Triumph Hospital Northwest and Triumph Hospital Southwest	TX	2,768,000	7.6
Total		\$ 36,445,000	100%

* Annualized rental revenue is based on contractual base rent from leases in effect as of December 31, 2007.

Table of Contents**Grubb & Ellis Healthcare REIT, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of December 31, 2007, one of our tenants at our consolidated properties accounted for 10.0% or more of our aggregate annual rental revenue, as follows:

Tenant	2007 Annual Base Rent *	Percentage of 2007 Annual Base Rent	Property	GLA (Square Feet)	Lease Expiration Date
Institute for Senior Living of Florida	\$ 4,095,000	11.2%	East Florida Senior Care Portfolio	355,000	05/31/14

* Annualized rental revenue is based on contractual base rent from leases in effect as of December 31, 2007. The loss of the tenant or their inability to pay rent could have a material adverse effect on our business and results of operations.

Organizational, Offering and Related Expenses

Our organizational, offering and related expenses are being paid by our advisor and its affiliates on our behalf. These organizational, offering and related expenses include all expenses (other than selling commissions and the marketing support fee which generally represent 7.0% and 2.5% of our gross offering proceeds, respectively) to be paid by us in connection with our Offering. These expenses will only become our liability to the extent selling commissions, the marketing support fee and due diligence expense reimbursements and other organizational and offering expenses do not exceed 11.5% of the gross proceeds of our Offering. As of December 31, 2007 and 2006, expenses of \$1,086,000 and \$1,093,000, respectively, in excess of 11.5% of the gross proceeds of our Offering, have been incurred by our advisor or Grubb & Ellis Realty Investors and these expenses are not recorded in our accompanying consolidated financial statements as of December 31, 2007 and 2006. See Note 11, Related Party Transactions Offering Stage, for a further discussion of these amounts during our offering stage.

Stock Compensation

We follow SFAS No. 123(R), *Share-Based Payment*, to account for our stock compensation pursuant to our 2006 Incentive Plan and the 2006 Independent Directors Compensation Plan, a sub-plan of our 2006 Incentive Plan. See Note 13, Stockholders Equity (Deficit) 2006 Incentive Plan and Independent Directors Compensation Plan, for a further discussion of grants under our 2006 Incentive Plan.

Minority Interests

Minority interests relate to the interests in our consolidated entities that are not wholly-owned by us.

Income Taxes

We have not yet qualified as a REIT. We intend to make the election to be taxed as a REIT, under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, or the Code, when we file our tax return for the taxable year ended December 31, 2007. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90.0% of our ordinary taxable income to stockholders. As a REIT, we generally will not be subject to federal income tax on taxable 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 at regular corporate rates 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 stockholders. Because of our intention to elect REIT status in 2007 when we file our fiscal year 2007 tax return, we will not benefit from the net loss we incurred for the year ended December 31, 2006.

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In July 2006, the Financial Accounting Standards Board, or the FASB, issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, or FIN No. 48. We adopted FIN No. 48 effective January 1, 2007, and as a result did not become aware of any liability for uncertain tax positions that we believe should be recognized in our consolidated financial statements. We follow FIN No. 48 to recognize, measure, present and disclose in our consolidated financial statements uncertain tax positions that we have taken or expect to take on a tax return.

Per Share Data

We report earnings (loss) per share pursuant to SFAS No. 128, *Earnings Per Share*. Basic earnings (loss) per share attributable for all periods presented are computed by dividing net income (loss) by the weighted average number of shares of our common stock outstanding during the period. Diluted earnings (loss) per share are computed based on the weighted average number of shares of our common stock and all potentially dilutive securities, if any. Shares of restricted common stock give rise to potentially dilutive shares of common stock.

For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we recorded a net loss of \$7,666,000 and \$242,000, respectively. As of December 31, 2007 and 2006, 26,000 shares and 16,000 shares, respectively, of restricted common stock were outstanding, but were excluded from the computation of diluted earnings per share because such shares of restricted common stock were anti-dilutive during this period.

Segment Disclosure

The FASB issued SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, which establishes standards for reporting financial and descriptive information about an enterprise's reportable segments. We have determined that we have one reportable segment, with activities related to investing in medical office buildings, healthcare-related facilities and quality commercial office properties. Our investments in real estate are geographically diversified and management evaluates operating performance on an individual property level. However, as each of our properties has similar economic characteristics, tenants, and products and services, our properties have been aggregated into one reportable segment for the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006.

Recently Issued Accounting Pronouncements

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

SFAS No. 157 and FSP FAS 157-1 on a prospective basis on January 1, 2008. The adoption of SFAS No. 157 and FSP FAS 157-1 did not have a material impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, or SFAS No. 159. SFAS No. 159 permits entities to choose to measure many financial

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

instruments and certain other items at fair value. The objective of the guidance is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. We adopted SFAS No. 159 on a prospective basis on January 1, 2008. The adoption of SFAS No. 159 did not have a material impact on our consolidated financial statements since we will not be electing to apply the fair value option for any of our eligible financial instruments or other items on the January 1, 2008 effective date.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, or SFAS No. 141(R), and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51*, or SFAS No. 160. These two new standards will significantly change the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements. SFAS No. 141(R) requires an acquiring entity to recognize acquired assets and liabilities assumed in a transaction at fair value as of the acquisition date, changes the disclosure requirements for business combination transactions and changes the accounting treatment for certain items, including contingent consideration agreements which will be required to be recorded at acquisition date fair value and acquisition costs which will be required to be expensed as incurred. SFAS No. 160 requires that noncontrolling interests be presented as a component of consolidated stockholders' equity, eliminates minority interest accounting such that the amount of net income attributable to the noncontrolling interests will be presented as part of consolidated net income in our accompanying consolidated statements of operations and not as a separate component of income and expense, and requires that upon any changes in ownership that result in the loss of control of the subsidiary, the noncontrolling interest be re-measured at fair value with the resultant gain or loss recorded in net income. SFAS No. 141(R) and SFAS No. 160 require simultaneous adoption and are to be applied prospectively for the first annual reporting period beginning on or after December 15, 2008. Early adoption of either standard is prohibited. We will adopt SFAS No. 141(R) and SFAS No. 160 on January 1, 2009. We are evaluating the impact of SFAS No. 141(R) and SFAS No. 160 and have not yet determined the impact the adoption will have on our consolidated financial statements.

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

Table of Contents**Grubb & Ellis Healthcare REIT, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. Real Estate Investments**

Our investments in our consolidated properties consisted of the following as of December 31, 2007 and 2006:

	December 31, 2007	December 31, 2006
Land	\$ 52,428,000	\$
Building and improvements	305,150,000	
Furniture and equipment	5,000	
	357,583,000	
Less: accumulated depreciation	(4,589,000)	
	\$ 352,994,000	\$

Depreciation expense for the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006 was \$4,616,000 and \$0, respectively.

Acquisitions in 2007***Affiliate Acquisitions***

As a result of acquiring the NNN Southpointe, LLC, NNN Crawfordsville, LLC, NNN Gallery Medical, LLC, NNN Lenox Medical, LLC and NNN Lenox Medical Land, LLC membership interests from affiliates, as described below, an independent appraiser was engaged to value the properties and the transactions were approved and determined by a majority of our board of directors, including a majority of our independent directors, as fair and reasonable to us, and at prices no greater than the cost of the investments to our affiliate or the properties' appraised values.

Southpointe Office Parke and Epler Parke I Indianapolis, Indiana

On January 22, 2007, we acquired all of the membership interests of NNN Southpointe, LLC from an affiliate, for a total purchase price of \$14,800,000, plus closing costs. NNN Southpointe, LLC has fee simple ownership of Southpointe Office Parke and Epler Parke I, located in Indianapolis, Indiana, or the Southpointe property. We primarily financed the purchase price through the assumption of an existing mortgage loan of \$9,146,000 on the property with LaSalle Bank National Association, or LaSalle, and approximately \$5,115,000 of the proceeds from a \$7,500,000 unsecured loan from NNN Realty Advisors. The balance was paid using funds raised through our Offering. An acquisition fee of \$444,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Crawfordsville Medical Office Park and Athens Surgery Center Crawfordsville, Indiana

On January 22, 2007, we acquired all of the membership interests of NNN Crawfordsville, LLC from an affiliate, for a total purchase price of \$6,900,000, plus closing costs. NNN Crawfordsville, LLC has fee simple ownership of Crawfordsville Medical Office Park and Athens Surgery Center, located in Crawfordsville, Indiana, or the Crawfordsville property. We primarily financed the purchase price through the assumption of an existing mortgage loan of \$4,264,000 on the property with LaSalle and approximately \$2,385,000 of the proceeds from a \$7,500,000 unsecured loan from NNN Realty Advisors. The balance was paid using funds raised through our Offering. An acquisition fee of \$207,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Gallery Professional Building St. Paul, Minnesota

On March 9, 2007, we acquired all of the membership interests of NNN Gallery Medical, LLC from an affiliate, for a total purchase price of \$8,800,000, plus closing costs. NNN Gallery Medical, LLC has fee simple ownership of The Gallery Professional Building, located in St. Paul, Minnesota, or the Gallery property. We primarily financed the purchase price through the assumption of an existing mortgage loan of \$6,000,000 on the property with LaSalle and a \$1,000,000 unsecured loan from NNN Realty Advisors. The balance of the purchase price was paid using funds raised through our Offering. An acquisition fee of \$264,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Lenox Office Park, Building G Memphis, Tennessee

On March 23, 2007, we acquired all of the membership interests of NNN Lenox Medical, LLC and NNN Lenox Medical Land, LLC from an affiliate, for a total purchase price of \$18,500,000, plus closing costs. NNN Lenox Medical, LLC holds a leasehold interest in Lenox Office Park, Building G, and NNN Lenox Medical Land, LLC holds a fee simple interest in two vacant parcels of land within Lenox Office Park, located in Memphis, Tennessee, which we collectively refer to as the Lenox property. We primarily financed the purchase price of the property and land parcels through the assumption of an existing mortgage loan of \$12,000,000 on the property with LaSalle. The balance of the purchase price was paid using funds raised through our Offering. An acquisition fee of \$555,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Unaffiliated Third Party Acquisitions

Commons V Medical Office Building Naples, Florida

On April 24, 2007, we acquired Commons V Medical Office Building, located in Naples, Florida, or the Commons V property, from an unaffiliated third party, for a total purchase price of \$14,100,000, plus closing costs. We financed the purchase price using funds raised through our Offering. An acquisition fee of \$423,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate. In addition, a real estate commission of \$300,000, or approximately 2.0% of the purchase price, was paid by the seller to Grubb & Ellis. On May 14, 2007, we entered into a loan, secured by the Commons V property, with Wachovia Bank, National Association, or Wachovia, evidenced by a promissory note in the principal amount of \$10,000,000. The proceeds from this loan were used to purchase the Thunderbird Medical Plaza as described below.

Yorktown Medical Center and Shakerag Medical Center Fayetteville and Peachtree City, Georgia

On May 2, 2007, we acquired Yorktown Medical Center and Shakerag Medical Center, located in Fayetteville, Georgia and Peachtree City, Georgia, respectively, which we collectively refer to as the Peachtree property, for a total purchase price of \$21,500,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price through a secured loan with Wachovia as evidenced by a promissory note in the principal amount of \$13,530,000 and with funds raised through our Offering. An acquisition fee of \$645,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Thunderbird Medical Plaza Glendale, Arizona

On May 15, 2007, we acquired Thunderbird Medical Plaza, located in Glendale, Arizona, from an unaffiliated third party for a total purchase price of \$25,000,000, plus closing costs. We financed the purchase price using a combination of \$9,651,000 in net proceeds from the \$10,000,000 loan from Wachovia secured by the Commons V property (described above) and funds raised through our Offering. An acquisition fee of \$750,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate. On June 8, 2007, we entered into a loan, secured by the Thunderbird property, with Wachovia, evidenced by a promissory note in the

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

principal amount of \$14,000,000. The proceeds from this loan were used to purchase Triumph Hospital Northwest and Triumph Hospital Southwest as described below.

Triumph Hospital Northwest and Triumph Hospital Southwest Houston and Sugar Land, Texas

On June 8, 2007, we acquired Triumph Hospital Northwest, located in Houston, Texas, and Triumph Hospital Southwest, located in Sugar Land, Texas, which we collectively refer to as the Triumph Hospital Portfolio, for a total purchase price of \$36,500,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price using a combination of \$12,605,000 in net proceeds from the loan from Wachovia secured by the Thunderbird property (described above), \$20,975,000 from funds raised through our Offering and the balance of \$4,000,000 from an unsecured loan from NNN Realty Advisors. An acquisition fee of \$1,095,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Gwinnett Professional Center Lawrenceville, Georgia

On July 27, 2007, we acquired the Gwinnett Professional Center, located in Lawrenceville, Georgia, or the Gwinnett property, for a total purchase price of \$9,300,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price using a combination of debt financing consisting of a \$6,000,000 loan assumed with a current principal balance of \$5,734,000 secured by the Gwinnett property from LaSalle and funds raised through our Offering. An acquisition fee of \$279,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

1 and 4 Market Exchange Columbus, Ohio

On August 15, 2007, we acquired 1 Market Exchange, 4 Market Exchange and a vacant parcel of land, located in Columbus, Ohio, which we collectively refer to as the 1 and 4 Market property, for a total purchase price of \$21,900,000, plus closing costs. We acquired the property from unaffiliated third parties. We financed the purchase price using funds raised through our Offering. An acquisition fee of \$657,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate. On September 28, 2007, we entered into a loan, secured by the 1 and 4 Market property, with Wachovia, evidenced by a promissory note in the principal amount of \$14,500,000.

Kokomo Medical Office Park Kokomo, Indiana

On August 30, 2007, we acquired the Kokomo Medical Office Park, located in Kokomo, Indiana, or the Kokomo property, for a total purchase price of \$13,350,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price using a combination of funds raised through our Offering and the balance of \$1,300,000 from an unsecured loan from NNN Realty Advisors. An acquisition fee of \$401,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

St. Mary Physicians Center Long Beach, California

On September 5, 2007, we acquired St. Mary Physicians Center, located in Long Beach, California, or the St. Mary property, for a total purchase price of \$13,800,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price using a combination of \$8,280,000 from a loan secured by the St. Mary

property and the balance of \$6,100,000 from an unsecured loan from NNN Realty Advisors. An acquisition fee of \$414,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

2750 Monroe Boulevard Valley Forge, Pennsylvania

On September 10, 2007, we acquired 2750 Monroe Boulevard, located in Valley Forge, Pennsylvania, or the 2750 Monroe property, for a total purchase price of \$26,700,000, plus closing costs. We acquired the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

property from an unaffiliated third party. We financed the purchase price of the property with approximately \$27,870,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank (defined previously). See Note 8, Line of Credit, for a further discussion. An acquisition fee of \$801,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

East Florida Senior Care Portfolio Jacksonville, Winter Park and Sunrise, Florida

On September 28, 2007, we acquired the East Florida Senior Care Portfolio, located in Jacksonville, Winter Park and Sunrise, Florida, or the EFSC property, for a total purchase price of \$52,000,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price using a combination of \$24,918,000 in net proceeds from a \$26,000,000 loan (net of a \$4,500,000 loan holdback) from KeyBank National Association, or KeyBank, secured by the EFSC property, \$11,000,000 in borrowings under our secured revolving line of credit with LaSalle and the balance with funds raised through our Offering. An acquisition fee of \$1,560,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Northmeadow Medical Center Roswell, Georgia

On November 15, 2007, we acquired Northmeadow Medical Center, located in Roswell, Georgia, or the Northmeadow property, for a total purchase price of \$11,850,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with \$12,400,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank. An acquisition fee of \$356,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate. On November 20, 2007, we entered into a loan, secured by the Northmeadow property, with Equitrust Life Insurance Company, or Equitrust, evidenced by a promissory note in the principal amount of \$8,000,000.

Tucson Medical Office Portfolio Tucson, Arizona

On November 20, 2007, we acquired Tucson Medical Office Portfolio, located in Tucson, Arizona, or the Tucson Medical property, for a total purchase price of \$21,050,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with \$22,000,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank and with funds raised through our Offering. An acquisition fee of \$632,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Lima Medical Office Portfolio Lima, Ohio

On December 7, 2007, we acquired Lima Medical Office Portfolio, located in Lima, Ohio, or the Lima Medical property, for a total purchase price of \$25,250,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with \$26,000,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank and with funds raised through our Offering. An acquisition fee of \$758,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Highlands Ranch Park Plaza Highlands Ranch, Colorado

On December 19, 2007, we acquired Highlands Ranch Park Plaza, located in Highlands Ranch, Colorado, or the Highlands Ranch property, for a total purchase price of \$14,500,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with a secured loan of \$8,853,000 from Wachovia, \$2,901,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank and with funds raised through our Offering. An acquisition fee of \$435,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Park Place Office Park Dayton, Ohio

On December 20, 2007, we acquired Park Place Office Park, located in Dayton, Ohio, or the Park Place property, for a total purchase price of \$16,200,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with a secured loan of \$10,943,000 from Wachovia, \$500,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank and with funds raised through our Offering. An acquisition fee of \$486,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Chesterfield Rehabilitation Center Chesterfield, Missouri

On December 20, 2007, we executed a limited liability company agreement, or the Operating Agreement, with BD St. Louis Development, LLC, or BD St. Louis, a subsidiary of Duke Realty Corporation, an unaffiliated third party. Pursuant to the Operating Agreement, we acquired an 80.0% membership interest in G&E Healthcare REIT/Duke Chesterfield Rehab, LLC, or the JV Company, a joint venture company formed with BD St. Louis, and BD St. Louis acquired a 20.0% membership interest in the JV Company. BD St. Louis contributed Chesterfield Rehabilitation Center, located in Chesterfield, Missouri, or the Chesterfield property, at an agreed upon value of \$36,440,000 to the JV Company and received cash of \$33,552,000 and we contributed \$11,552,000 in cash. We funded our cash contribution, plus closing costs, using \$12,800,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank. In addition, the JV Company obtained additional financing from a secured loan in the amount of \$22,000,000 from National City Bank. An acquisition fee of \$1,093,000, or 3.0% of the agreed upon value of the Chesterfield property, was paid to our advisor and its affiliate.

Leverage

In accordance with our charter, a majority of our directors, including a majority of our independent directors, approved our leverage exceeding 300.0% of the value of our net assets in connection with our first four acquisitions of real properties. 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. Our board of directors determined that the excess leverage was justified because it enabled us to purchase the properties during the initial stages of our Offering, thereby improving our ability to meet our goal of acquiring a diversified portfolio of properties to generate current income for stockholders and preserve their capital. As of December 31, 2007, our leverage does not exceed 300.0% of the value of our net assets.

Proposed Unaffiliated Third Party Acquisition

Medical Portfolio 1

On December 17, 2007, our board of directors approved the acquisition of four medical properties in Florida and one medical property in Kansas, which we refer to as the Medical Portfolio 1 property. On January 22, 2008, our board of directors approved the acquisition of an additional office building that is adjacent to one of the Florida properties. On February 1, 2008, we purchased the Medical Portfolio 1 property for a total purchase price of \$36,950,000, plus closing costs, from an unaffiliated third party. See Note 19, Subsequent Events – Unaffiliated Third Party Acquisitions, for a further discussion.

Table of Contents**Grubb & Ellis Healthcare REIT, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. Identified Intangible Assets**

Identified intangible assets consisted of the following as of December 31, 2007 and 2006:

	December 31, 2007	December 31, 2006
In place leases, net of accumulated amortization of \$3,326,000 and \$0 as of December 31, 2007 and 2006, respectively, (with a weighted-average life of 79 and 0 months as of December 31, 2007 and 2006, respectively).	\$ 25,540,000	\$
Above market leases, net of accumulated amortization of \$265,000 and \$0 as of December 31, 2007 and 2006, respectively, (with a weighted-average life of 119 and 0 months as of December 31, 2007 and 2006, respectively).	3,083,000	
Tenant relationships, net of accumulated amortization of \$1,527,000 and \$0 as of December 31, 2007 and 2006, respectively, (with a weighted-average life of 140 and 0 months as of December 31, 2007 and 2006, respectively).	31,184,000	
Leasehold interests, net of accumulated amortization of \$3,000 and \$0 as of December 31, 2007 and 2006, respectively	3,114,000	
	\$ 62,921,000	\$

Amortization expense recorded on the identified intangible assets for the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006 was \$5,435,000 and \$0, respectively, which included \$265,000 and \$0, respectively, of amortization recorded against rental income for above market leases and \$3,000 and \$0, respectively, of amortization recorded against rental expenses for leasehold interests.

Estimated amortization expense on the identified intangible assets as of December 31, 2007 for each of the next five years ending December 31 and thereafter is as follows:

Year	Amount
2008	\$ 10,541,000
2009	\$ 9,314,000
2010	\$ 7,526,000
2011	\$ 5,949,000
2012	\$ 5,265,000
Thereafter	\$ 24,326,000

5. Other Assets

Other assets consisted of the following as of December 31, 2007 and 2006:

	December 31, 2007	December 31, 2006
Deferred financing costs, net of accumulated amortization of \$170,000 and \$0 as of December 31, 2007 and 2006, respectively	\$ 2,334,000	\$ 3,000
Lease commissions, net of accumulated amortization of \$7,000 and \$0 as of December 31, 2007 and 2006, respectively	275,000	
Lease inducements, net of accumulated amortization of \$19,000 and \$0 as of December 31, 2007 and 2006, respectively	773,000	
Deferred rent receivable	534,000	
Prepaid expenses and deposits	476,000	180,000
	\$ 4,392,000	\$ 183,000

Amortization expense recorded on deferred financing costs, lease commissions and lease inducements for the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through

Table of Contents**Grubb & Ellis Healthcare REIT, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

December 31, 2006 was \$196,000 and \$0, respectively, of which \$170,000 and \$0, respectively, of amortization was recorded against interest expense for deferred financing costs and \$19,000 and \$0, respectively, of amortization was recorded against rental income for lease inducements.

Estimated amortization expense on deferred financing costs, lease commissions and lease inducements as of December 31, 2007 for each of the next five years ending December 31 and thereafter is as follows:

Year	Amount
2008	\$ 788,000
2009	\$ 787,000
2010	\$ 631,000
2011	\$ 194,000
2012	\$ 192,000
Thereafter	\$ 790,000

6. Mortgage Loan Payables and Unsecured Note Payables to Affiliate***Mortgage Loan Payables***

Mortgage loan payables were \$185,899,000 (\$185,801,000, net of discount) and \$0 as of December 31, 2007 and 2006, respectively. As of December 31, 2007, we had fixed and variable rate mortgage loans with the effective interest rates ranging from 5.52% to 6.78% per annum and a weighted-average effective interest rate of 6.07% per annum. We had \$90,919,000 (\$90,821,000 net of discount), or 48.9%, of fixed rate debt at a weighted-average interest rate of 5.79% per annum and \$94,980,000, or 51.1%, of variable rate debt at a weighted-average interest rate of 6.35% per annum. We had fixed rate interest rate swaps on all of our variable rate mortgage loan payables, thereby effectively fixing our interest rate on those mortgage loan payables. The mortgage loan payables secured by the East Florida Senior Care property and the Gwinnett Professional property have monthly principal and interest payments. All other mortgage loan payables have monthly interest-only payments. We are required by the terms of the applicable loan documents to meet certain financial covenants, such as debt service coverage ratios and rent coverage ratios and reporting requirements. As of December 31, 2007, we were in compliance with all such covenants and requirements.

Table of Contents**Grubb & Ellis Healthcare REIT, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Mortgage loan payables consisted of the following as of December 31, 2007 and 2006:

Property	Interest Rate	Maturity Date	December 31, 2007	December 31, 2006
Fixed Rate Debt:				
Southpointe Office Parke and Epler Parke I Crawfordsville Medical Office Park and Athens Surgery Center	6.11%	09/01/16	\$ 9,146,000	\$
The Gallery Professional Building	6.12%	10/01/16	4,264,000	
Lenox Office Park, Building G	5.76%	03/01/17	6,000,000	
Commons V Medical Office Building	5.88%	02/01/17	12,000,000	
Yorktown Medical Center and Shakerag Medical Center	5.54%	06/11/17	10,000,000	
Thunderbird Medical Plaza	5.52%	05/11/17	13,530,000	
Gwinnett Professional Center	5.67%	06/11/17	14,000,000	
St. Mary Physicians Center	5.88%	01/01/14	5,699,000	
Northmeadow Medical Center	5.80%	09/04/09	8,280,000	
	5.99%	12/01/14	8,000,000	
			90,919,000	
Variable Rate Debt:				
1 and 4 Market Exchange	Variable*	09/30/10	14,500,000	
East Florida Senior Care Portfolio	Variable*	11/01/10	30,384,000	
Kokomo Medical Office Park	Variable*	11/30/10	8,300,000	
Park Place Office Park	Variable*	12/31/10	10,943,000	
Highlands Ranch Medical Plaza	Variable*	12/31/10	8,853,000	
Chesterfield Rehabilitation Center	Variable*	12/30/10	22,000,000	
			94,980,000	
		Total fixed and variable debt	185,899,000	
		Less: discount	(98,000)	
		Mortgage loan payables	\$ 185,801,000	\$

* As of December 31, 2007, we had variable rate mortgage loans with the effective interest rates ranging from 6.15% to 6.78% per annum and a weighted-average effective interest rate of 6.35% per annum. However, as of December 31, 2007, we had fixed rate interest rate swaps, ranging from 5.52% to 6.02%, on all of our variable rate mortgage loan payables, thereby effectively fixing our interest rate on those mortgage loan payables.

The principal payments due on our mortgage loan payables as of December 31, 2007 for each of the next five years ending December 31 and thereafter is as follows:

Year	Amount
2008	\$ 870,000
2009	\$ 9,337,000
2010	\$ 94,922,000
2011	\$ 1,256,000
2012	\$ 1,357,000
Thereafter	\$ 78,157,000

Table of Contents**Grubb & Ellis Healthcare REIT, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Unsecured Note Payables to Affiliate***

For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we entered into, and subsequently paid down, the following unsecured loans with NNN Realty Advisors, evidenced by unsecured promissory notes:

Date of Note	Amount	Maturity Date	Interest Rate	Default Interest Rate	Date Paid in Full
01/22/07	\$ 7,500,000	07/22/07	6.86%	8.86%	03/28/07
03/09/07	\$ 1,000,000	09/09/07	6.84%	8.84%	03/28/07
06/08/07	\$ 4,000,000	12/08/07	6.82%	8.82%	06/18/07
08/30/07	\$ 1,300,000	03/01/08	6.85%	8.85%	09/04/07
09/05/07	\$ 6,100,000	03/05/08	6.86%	8.86%	09/11/07

The unsecured notes bore interest at a fixed rate and required monthly interest-only payments for the terms of the unsecured notes. As of December 31, 2007 and 2006, we had no outstanding balances under the unsecured note payables to affiliate.

Because these loans were related party loans, the terms of the loans and the unsecured notes were approved by our board of directors, including a majority of our independent directors, and deemed fair, competitive and commercially reasonable by our board of directors.

7. Derivative Financial Instruments

The following table lists our derivative financial instruments held by us as of December 31, 2007:

Notional Amount	Index	Rate	Fair Value	Instrument	Maturity
\$ 14,500,000	LIBOR	5.97%	\$ 306,000	SWAP	09/28/10
\$ 8,300,000	LIBOR	5.86%	\$ 164,000	SWAP	11/30/10
\$ 8,853,000	LIBOR	5.52%	\$ 23,000	SWAP	12/31/10
\$ 10,943,000	LIBOR	5.52%	\$ 65,000	SWAP	12/31/10
\$ 22,000,000	LIBOR	5.59%	\$ 117,000	SWAP	12/30/10
\$ 30,383,000	LIBOR	6.02%	\$ 702,000	SWAP	10/01/10

The fair value of our derivative financial instruments was \$(1,377,000) as of December 31, 2007 which is included in derivative financial instruments on our accompanying consolidated balance sheets. We did not have any derivative financial instruments as of December 31, 2006.

We recorded \$1,377,000 and \$0 to interest expense, related to the change in the fair value of our derivative financial instruments, for the year ended December 31, 2007 and for the period April 28, 2006 (Date of Inception) through December 31, 2006, respectively.

8. Line of Credit

On September 10, 2007, we entered into a loan agreement, or the Loan Agreement, with LaSalle to obtain a secured revolving credit facility in an aggregate maximum principal amount of \$50,000,000, or the LaSalle line of credit. The proceeds of loans made under the Loan Agreement may be used to finance the purchase of properties or, provided no event of default has occurred and is continuing, may be used for any other lawful purpose. In addition to loans, our operating partnership may obtain up to \$10,000,000 of the credit available under the Loan Agreement in the form of letters of credit. The initial term of the Loan Agreement is three years, which may be extended by one 12-month period subject to satisfaction of certain conditions, including payment of an extension fee equal to 0.20% of the principal balance of loans then outstanding.

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The actual amount of credit available under the Loan Agreement is a function of certain loan to cost, loan to value and debt service coverage ratios contained in the Loan Agreement. The maximum principal amount of the Loan Agreement may be increased to \$120,000,000 subject to the terms of the Loan Agreement. Also, additional financial institutions may become lenders under the Loan Agreement.

At our option, loans under the Loan Agreement bear interest at per annum rates equal to (a) LIBOR plus a margin ranging from 1.45% to 1.60%, depending on the ratio of outstanding amounts under the Loan Agreement to the value of the collateral securing the Loan Agreement, (b) the greater of LaSalle's prime rate or the Federal Funds Rate plus 0.50%, or (c) a combination of these rates. Accrued interest under the Loan Agreement is payable monthly and at maturity. In addition to interest, we are required to pay a fee on the unused portion of the lenders' commitments under the Loan Agreement at a per annum rate equal to 0.20%, payable quarterly in arrears, beginning with the quarter ending December 31, 2007.

Our obligations with respect to the Loan Agreement are guaranteed by us and by our subsidiaries that own properties that serve as collateral for the Loan Agreement.

The Loan Agreement contains various affirmative and negative covenants that are customary for facilities and transactions of this type, including limitations on the incurrence of debt by us and our subsidiaries that own properties that serve as collateral for the Loan Agreement, limitations on the nature of our business, and limitations on distributions by us and our subsidiaries that own properties that serve as collateral for the Loan Agreement. The Loan Agreement also imposes the following financial covenants on us and our operating partnership, as applicable: (a) a minimum ratio of operating cash flow to interest expense, (b) a minimum ratio of operating cash flow to fixed charges, (c) a maximum ratio of liabilities to asset value, (d) a maximum distribution covenant and (e) a minimum net worth covenant, all of which are defined in the Loan Agreement. In addition, the Loan Agreement includes events of default that are customary for facilities and transactions of this type. As of December 31, 2007, we were in compliance with all such covenants and requirements.

On December 12, 2007, we, along with our subsidiaries, entered into a Modification of Loan Agreement with LaSalle and amended and restated promissory notes with each of LaSalle and KeyBank (i) to increase the aggregate maximum principal amount available under the LaSalle line of credit from \$50,000,000 to \$80,000,000; (ii) to modify the applicable margin rate for LIBOR loans from a range of 1.45% to 1.60% to a stated margin of 1.50%; (iii) to decrease the applicable margin rate for base rate loans from 0.5% to 0.0%; and (iv) to add KeyBank as a lender under the LaSalle line of credit, which we refer to as our secured revolving line of credit with LaSalle and KeyBank. Our secured revolving line of credit with LaSalle and KeyBank is secured by the Triumph Hospital Portfolio, the 2750 Monroe property, the Lima Medical property and the Tucson Medical property.

As of December 31, 2007 and 2006, borrowings under our secured revolving line of credit with LaSalle and KeyBank totaled \$51,801,000 and \$0, respectively. Borrowings as of December 31, 2007 bore interest at a weighted-average interest rate of 6.93% per annum.

9. Identified Intangible Liabilities

Identified intangible liabilities consisted of the following as of December 31, 2007 and 2006:

	December 31, 2007	December 31, 2006
Below market leases, net of accumulated amortization of \$245,000 and \$0 as of December 31, 2007 and 2006, respectively, (with a weighted-average life of 55 and 0 months as of December 31, 2007 and 2006, respectively)	\$ 1,639,000	\$
	\$ 1,639,000	\$

Table of Contents**Grubb & Ellis Healthcare REIT, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Amortization expense recorded on the identified intangible liabilities for the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006 was \$255,000 and \$0, respectively, which is recorded to rental income in our accompanying consolidated statements of operations.

Estimated amortization expense on the identified intangible liabilities as of December 31, 2007 for each of the next five years ending December 31 and thereafter is as follows:

Year	Amount
2008	\$ 491,000
2009	\$ 366,000
2010	\$ 277,000
2011	\$ 198,000
2012	\$ 144,000
Thereafter	\$ 163,000

10. Commitments and Contingencies***Litigation***

We are not presently subject to any material litigation nor, to our knowledge, is any material litigation threatened against us, which if determined unfavorably to us, would have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Environmental Matters

We follow the policy of monitoring our properties for the presence of hazardous or toxic substances. While there can be no assurance that a material environmental liability does not exist at our properties, we are not currently aware of any environmental liability with respect to our properties that would have a material effect on our consolidated financial position, results of operations or cash flows. Further, we are not aware of any environmental liability or any unasserted claim or assessment with respect to an environmental liability that we believe would require additional disclosure or the recording of a loss contingency.

Organizational, Offering and Related Expenses

As of December 31, 2007 and 2006, expenses of \$1,086,000 and \$1,093,000, respectively, in excess of 11.5% of the gross proceeds of our Offering, have been incurred by our advisor or Grubb & Ellis Realty Investors and these expenses are not recorded in our accompanying consolidated financial statements as of December 31, 2007 and 2006. To the extent we raise additional proceeds from our Offering, these amounts may become our liability. See Note 2, Summary of Significant Accounting Policies – Organizational, Offering and Related Expenses, for a further discussion.

Repairs and Maintenance Expenses

We are required by the terms of the mortgage loan payable secured by the Thunderbird property to complete certain repairs to the property in the amount of \$190,000 by February 2008. We are required by the terms of the mortgage loan payable secured by the Gallery property to complete certain repairs to the property in the amount of \$63,000 by January 2008. Funds for these expenditures are held by the lender and are included in restricted cash on our accompanying consolidated balance sheet as of December 31, 2007.

Chesterfield Property

The Operating Agreement with BD St. Louis for the JV Company that owns the Chesterfield property provides that from January 1, 2010 to March 31, 2010, our operating partnership has the right and option to

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

purchase the 20.0% membership interests in the JV Company held by BD St. Louis at a fixed price of \$3,900,000. However, if we do not exercise that right, the Operating Agreement provides that from January 1, 2011 to March 31, 2011, BD St. Louis has the right and option to sell all, but not less than all, of its 20.0% membership interests in the JV Company to our operating partnership at the greater of \$10.00 or the fair market value as determined in accordance with the Operating Agreement.

Other

Our other commitments and contingencies include the usual obligations of real estate owners and operators in the normal course of business. In our opinion, these matters are not expected to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

11. Related Party Transactions

Fees and Expenses Paid to Affiliates

Some of our executive officers and our non-independent director are also executive officers and/or holders of a direct or indirect interest in our advisor, our sponsor, Grubb & Ellis Realty Investors, or other affiliated entities. Upon the effectiveness of our Offering, we entered into the Advisory Agreement and a dealer manager agreement, or the Dealer Manager Agreement, with our dealer manager. These agreements entitle our advisor, our dealer manager and their affiliates to specified compensation for certain services with regards to our Offering and the investment of funds in real estate assets, among other services, as well as reimbursement of organizational and offering expenses incurred. In the aggregate, for the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred to our advisor or its affiliates \$38,595,000 and \$312,000, respectively, as detailed below.

Offering Stage

Selling Commissions

Our dealer manager receives selling commissions of up to 7.0% of the gross offering proceeds from the sale of shares of our common stock in our Offering other than shares sold pursuant to the DRIP. Our dealer manager may re-allow all or a portion of these fees to participating broker-dealers. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred \$14,568,000 and \$0, respectively, in selling commissions to our dealer manager. Such commissions are charged to stockholders' equity (deficit) as such amounts are reimbursed to our dealer manager from the gross proceeds of our Offering.

Marketing Support Fee and Due Diligence Expense Reimbursements

Our dealer manager may receive non-accountable marketing support fees and due diligence expense reimbursements up to 2.5% of the gross offering proceeds from the sale of shares of our common stock in our Offering other than shares sold pursuant to the DRIP, and may re-allow up to 1.5% of the gross offering proceeds to participating broker-dealers. In addition, we may reimburse our dealer manager or its affiliates an additional accountable 0.5% of the gross offering proceeds for bona fide due diligence expenses and may re-allow all or a portion up to 0.5% of the

gross offering proceeds to participating broker-dealers. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred \$5,382,000 and \$0, respectively, in marketing support fees and due diligence expense reimbursements to our dealer manager. Such fees and reimbursements are charged to stockholders' equity (deficit) as such amounts are reimbursed to our dealer manager or its affiliates from the gross proceeds of our Offering.

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other Organizational and Offering Expenses

Our organizational and offering expenses are paid by our advisor or Grubb & Ellis Realty Investors on our behalf. Our advisor or Grubb & Ellis Realty Investors may be reimbursed for actual expenses incurred for up to 1.5% of the gross offering proceeds from the sale of shares of our common stock in our Offering other than shares sold pursuant to the DRIP. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred \$3,170,000 and \$0, respectively, in other organizational and offering expenses to our advisor or Grubb & Ellis Realty Investors. Other organizational expenses are expensed as incurred, and offering expenses are charged to stockholders' equity (deficit) as such amounts are reimbursed to our advisor or Grubb & Ellis Realty Investors from the gross proceeds of our Offering.

Acquisition and Development Stage

Acquisition Fees

Our advisor or its affiliates receive, as compensation for services rendered in connection with the investigation, selection and acquisition of properties, an acquisition fee of up to 3.0% of the contract purchase price for each property acquired or up to 4.0% of the total development cost of any development property acquired, as applicable. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred \$12,253,000 and \$0, respectively, in acquisition fees to our advisor or its affiliates. Acquisition fees are capitalized as part of the purchase price allocations.

Reimbursement of Acquisition Expenses

Our advisor or its affiliates will be reimbursed for acquisition expenses related to selecting, evaluating, acquiring and investing in properties. Acquisition expenses, excluding amounts paid to third parties, will not exceed 0.5% of the purchase price of the properties. The reimbursement of acquisition fees and expenses, including real estate commissions paid to unaffiliated parties, will not exceed, in the aggregate, 6.0% of the purchase price or total development costs, unless fees in excess of such limits are approved by a majority of our disinterested independent directors. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred \$11,000 and \$0, respectively, for such expenses to our advisor or its affiliates, excluding amounts our advisor or its affiliates paid directly to third parties. Acquisition expenses are capitalized as part of the purchase price allocations.

Operational Stage

Asset Management Fee

Our advisor or its affiliates are paid a monthly fee for services rendered in connection with the management of our assets equal to one-twelfth of 1.0% of the average invested assets calculated as of the close of business on the last day of each month, subject to our stockholders receiving annualized distributions in an amount equal to 5.0% per annum on average invested capital. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred \$1,590,000 and \$0, respectively, in asset management fees to our advisor or its affiliates, which is included in general and administrative in our accompanying consolidated statements

of operations.

Property Management Fees

Our advisor or its affiliates are paid a monthly property management fee equal to 4.0% of the gross cash receipts from each property managed. For properties managed by other third parties besides our advisor or its affiliates, our advisor or its affiliates will be paid up to 1.0% of the gross cash receipts from the property for a monthly oversight fee. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Inception) through December 31, 2006, we incurred \$591,000 and \$0, respectively, in property management fees and oversight fees to our advisor or its affiliates, which is included in rental expenses in our accompanying consolidated statements of operations.

Lease Fees

Our advisor, its affiliates or unaffiliated third parties, as the property manager, may receive a separate fee for leasing activities in an amount not to exceed the fee customarily charged in arm's length transactions by others rendering similar services in the same geographic area for similar properties, as determined by a survey of brokers and agents in such area ranging between 3.0% and 8.0% of gross revenues generated from the initial term of the lease. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred \$265,000 and \$0, respectively, to Grubb & Ellis Realty Investors in lease fees.

On-site Personnel and Engineering Payroll

For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, Grubb & Ellis Realty Investors incurred payroll for on-site personnel and engineering on our behalf of \$162,000 and \$0, respectively, which is included in rental expenses in our accompanying consolidated statements of operations.

Operating Expenses

We reimburse our advisor or its affiliates for expenses incurred in rendering its services to us, subject to certain limitations on our operating expenses. However, we cannot reimburse our advisor and affiliates for fees and costs that exceed the greater of: (1) 2.0% of our average invested assets, as defined in the Advisory Agreement, or (2) 25.0% of our net income, as defined in the Advisory Agreement, unless our board of directors determines that such excess expenses were justified based on unusual and non-recurring factors. For the twelve months ended December 31, 2007, our operating expenses did not exceed this limitation. Our operating expenses as a percentage of average invested assets and as a percentage of net income were 1.8% and 139.7%, respectively, for the twelve months ended December 31, 2007.

For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, Grubb & Ellis Realty Investors incurred on our behalf \$515,000 and \$312,000, respectively, in operating expenses which is included in general and administrative in our accompanying consolidated statements of operations or prepaid expenses on our accompanying consolidated balance sheets, as applicable.

Compensation for Additional Services

Our advisor or its affiliates will be paid for services performed for us other than those required to be rendered by our advisor or its affiliates, under the Advisory Agreement. The rate of compensation for these services must be approved by a majority of our board of directors, and cannot exceed an amount that would be paid to unaffiliated third parties for similar services. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred \$3,000 and \$0, respectively, for tax services an affiliate provided to us.

Liquidity Stage

Disposition Fees

Our advisor or its affiliates will be paid, for services relating to a sale of one or more properties, a disposition fee up to the lesser of 1.75% of the contract sales price or 50.0% of a customary competitive real

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

estate commission given the circumstances surrounding the sale, in each case as determined by our board of directors and will not exceed market norms. The amount of disposition fees paid, including real estate commissions paid to unaffiliated parties, will not exceed the lesser of the customary competitive disposition fee or an amount equal to 6.0% of the contract sales price. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we did not incur such fees.

Subordinated Participation Interest

Subordinated Distribution of Net Sales Proceeds

Upon liquidation of our portfolio, our advisor will be paid a subordinated distribution of net sales proceeds. The distribution will be equal to 15.0% of the net proceeds from the sales of properties, after subtracting distributions to our stockholders of (1) their initial contributed capital (less amounts paid to repurchase shares pursuant to our share repurchase program) plus (2) an annual cumulative, non-compounded return of 8.0% on average invested capital. Actual amounts depend upon the sales prices of properties upon liquidation. For the year ended December 31, 2007 and for the period April 28, 2006 (Date of Inception) through December 31, 2006, we did not incur such distributions.

Subordinated Distribution Upon Listing

Upon the listing of our shares of common stock on a national securities exchange, our advisor will be paid a distribution equal to 15.0% of the amount by which (1) the market value of our outstanding common stock at listing plus distributions paid prior to listing exceeds (2) the sum of total amount of capital raised from stockholders (less amounts paid to repurchase shares pursuant to our share repurchase plan) and the amount of cash that, if distributed to stockholders as of the date of listing, would have provided them an annual 8.0% cumulative, non-compounded return on average invested capital through the date of listing. Actual amounts depend upon the market value of shares of our common stock at the time of listing, among other factors. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we did not incur such distributions.

Subordinated Distribution Upon Termination

Upon termination of the Advisory Agreement, other than a termination by us for cause, our advisor will be entitled to receive a distribution from our operating partnership in an amount equal to 15.0% of the amount, if any, by which (1) the fair market value of all of the assets of our operating partnership as of the date of the termination (determined by appraisal), less any indebtedness secured by such assets, plus the cumulative distributions made to us by our operating partnership from our inception through the termination date, exceeds (2) the sum of the total amount of capital raised from stockholders (less amounts paid to redeem shares pursuant to our share repurchase plan) plus an annual 8.0% cumulative, non-compounded return on average invested capital through the termination date. However, our advisor will not be entitled to this distribution if our shares have been listed on a national securities exchange prior to the termination of the Advisory Agreement.

Table of Contents**Grubb & Ellis Healthcare REIT, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Accounts Payable Due to Affiliates, Net***

The following amounts were outstanding to affiliates as of December 31, 2007 and 2006:

Entity	Fee	December 31, 2007	December 31, 2006
Grubb & Ellis Realty Investors	Operating Expenses	\$ 79,000	\$ 312,000
Grubb & Ellis Realty Investors	Offering Costs	798,000	
Grubb & Ellis Realty Investors	Due Diligence	25,000	
Grubb & Ellis Realty Investors	On-site Payroll and Engineering	51,000	
Grubb & Ellis Realty Investors	Acquisition Related Expenses	4,000	
Grubb & Ellis Securities	Selling Commissions, Marketing Support Fees and Due Diligence Expense Reimbursements	288,000	
Realty	Asset and Property Management Fees	941,000	
Realty	Lease Commissions	170,000	
		\$ 2,356,000	\$ 312,000

Unsecured Note Payables to Affiliate

For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred interest expense to NNN Realty Advisors of \$84,000 and \$0, respectively. See Note 6, Mortgage Loan Payables and Unsecured Note Payables to Affiliate Unsecured Note Payables to Affiliate, for a further discussion.

12. Minority Interests

As of December 31, 2007 and 2006, we owned a 99.99% and a 1.0%, respectively, general partnership interest in our operating partnership and our advisor owned a 0.01% and a 99.0%, respectively, limited partnership interest. As such, 0.01% of the earnings at our operating partnership are allocated to minority interests.

In addition as of December 31, 2007, we owned an 80.0% interest in the consolidated limited liability company that owns the Chesterfield property that was purchased on December 20, 2007. As of December 31, 2007, the balance is comprised of the minority interest's initial contribution and 20.0% of the earnings at the Chesterfield property.

13. Stockholders' Equity (Deficit)***Common Stock***

In April 2006, our advisor purchased 200 shares of our common stock for total cash consideration of \$2,000 and was admitted as our initial stockholder. On September 20, 2006 and October 4, 2006, we granted an aggregate of 15,000 shares and 5,000 shares, respectively, of restricted common stock to our independent directors. On April 12, 2007, we granted 5,000 shares of restricted common stock to our newly appointed independent director. On June 12, 2007, in connection with their re-election, we granted an aggregate of 12,500 shares of restricted stock to our independent directors. Through December 31, 2007, we issued 21,130,370 shares in connection with our Offering and 281,381 shares under the DRIP. As of December 31, 2007 and 2006, we had 21,449,451 and 20,200 shares of common stock outstanding, respectively.

We are offering and selling to the public up to 200,000,000 shares of our \$0.01 par value common stock for \$10.00 per share and up to 21,052,632 shares of our \$0.01 par value common stock to be issued pursuant to the DRIP at \$9.50 per share. Our charter authorizes us to issue 1,000,000,000 shares of our common stock.

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Preferred Stock

Our charter authorizes us to issue 200,000,000 shares of our \$0.01 par value preferred stock. No shares of preferred stock were issued and outstanding as of December 31, 2007 and 2006.

Distribution Reinvestment Plan

We adopted the DRIP that allows stockholders to purchase additional shares of common stock through the reinvestment of distributions, subject to certain conditions. We registered and reserved 21,052,632 shares of common stock for sale pursuant to the DRIP in our Offering. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, \$2,673,000 and \$0, respectively, in distributions were reinvested and 281,381 and 0 shares, respectively, were issued under the DRIP. As of December 31, 2007 and 2006, a total of \$2,673,000 and \$0, respectively, in distributions were reinvested and 281,381 and 0 shares, respectively, were issued under the DRIP.

Share Repurchase Plan

Our board of directors has approved a share repurchase plan. On August 24, 2006, we received SEC exemptive relief from rules restricting issuer purchases during distributions. The share repurchase plan allows for share repurchases by us when certain criteria are met by stockholders. Share repurchases will be made at the sole discretion of our board of directors. Funds for the repurchase of shares will come exclusively from the proceeds we receive from the sale of shares under the DRIP. As of December 31, 2007, no share repurchases had been made.

2006 Incentive Plan and Independent Directors Compensation Plan

Under the terms of our 2006 Incentive Plan, 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.

On September 20, 2006 and October 4, 2006, we granted an aggregate of 15,000 shares and 5,000 shares, respectively, of restricted common stock, as defined in the 2006 Incentive Plan, to our independent directors under the 2006 Independent Director Compensation Plan. On April 12, 2007, we granted 5,000 shares of restricted common stock to our newly appointed independent director. On June 12, 2007, in connection with their re-election, we granted 12,500 shares of restricted common stock to our independent directors. Each of these restricted stock awards vested 20.0% on the grant date and 20.0% will vest on each of the first four anniversaries of the date of grant. The fair value of each share of restricted common stock was estimated at the date of grant at \$10.00 per share, the per share price of shares in our Offering, and is amortized on a straight-line basis over the vesting period. Shares of restricted common stock may not be sold, transferred, exchanged, assigned, pledged, hypothecated or otherwise encumbered. Such restrictions expire upon vesting. For the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we recognized compensation expense of \$96,000 and \$51,000, respectively, related to the restricted common stock grants. Such compensation expense is included in general and administrative in our accompanying consolidated statements of operations. Shares of restricted common stock have full voting rights and rights to dividends.

As of December 31, 2007 and 2006, there was approximately \$228,000 and \$149,000, respectively, of total unrecognized compensation expense, net of estimated forfeitures, related to nonvested shares of restricted common stock. This expense is expected to be realized over a remaining weighted average period of 3.1 years.

Table of Contents**Grubb & Ellis Healthcare REIT, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of December 31, 2007 and 2006, the fair value of the nonvested shares of restricted common stock was \$260,000 and \$160,000, respectively. A summary of the status of our shares of restricted common stock as of December 31, 2007 and 2006, and the changes for the period from April 28, 2006 (Date of Inception) through December 31, 2006, is presented below:

		Restricted Common Stock		Weighted Average Grant Date Fair Value
Balance	April 28, 2006 (Date of Inception)			
Granted		20,000	\$	10.00
Vested		(4,000)	\$	10.00
Forfeited				
Balance	December 31, 2006	16,000	\$	10.00
Granted		17,500	\$	10.00
Vested		(7,500)	\$	10.00
Forfeited				
Balance	December 31, 2007	26,000	\$	10.00
Expected to vest	December 31, 2007	26,000	\$	10.00

14. Subordinated Participation Interest

Pursuant to the Agreement of Limited Partnership of our operating partnership approved by our board of directors, upon termination of the Advisory Agreement, other than a termination by us for cause, our advisor will be entitled to receive a distribution from our operating partnership in an amount equal to 15.0% of the amount, if any, by which (1) the fair market value of all of the assets of our operating partnership as of the date of the termination (determined by appraisal), less any indebtedness secured by such assets, plus the cumulative distributions made to us by our operating partnership from our inception through the termination date, exceeds (2) the sum of the total amount of capital raised from stockholders (less amounts paid to redeem shares pursuant to our share repurchase plan) plus an annual 8.0% cumulative, non-compounded return on average invested capital through the termination date. However, our advisor will not be entitled to this distribution if shares of our common stock have been listed on a national securities exchange prior to the termination of the Advisory Agreement.

15. Tax Treatment of Distributions

The income tax treatment for distributions reportable for the year ended December 31, 2007 and 2006 was as follows:

	Year Ended December 31, 2007			Year Ended December 31, 2006	
Ordinary income	\$	915,000	15.3%	\$	%
Capital gain					
Return of capital		5,081,000	84.7		
	\$	5,996,000	100%	\$	%

Table of Contents**Grubb & Ellis Healthcare REIT, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****16. Future Minimum Rent*****Rental Income***

We have operating leases with tenants that expire at various dates through 2024 and in some cases subject to scheduled fixed increases or adjustments based on the consumer price index. Generally, the leases grant tenants renewal options. Leases also provide for additional rents based on certain operating expenses. Future minimum rent contractually due under operating leases, excluding tenant reimbursements of certain costs, as of December 31, 2007 for each of the next five years ending December 31 and thereafter is as follows:

Year	Amount
2008	\$ 35,055,000
2009	33,304,000
2010	28,690,000
2011	23,551,000
2012	19,964,000
Thereafter	69,670,000
Total	\$ 210,234,000

A certain amount of our rental income is from tenants with leases which are subject to contingent rent provisions. These contingent rents are subject to the tenant achieving periodic revenues in excess of specified levels. For the year ended December 31, 2007 and the period from April 28, 2006 (Date of Inception) through December 31, 2006, the amount of contingent rent earned by us was not significant.

Table of Contents**Grubb & Ellis Healthcare REIT, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****17. Business Combinations**

For the year ended December 31, 2007, we completed the acquisition of 20 consolidated properties, adding a total of approximately 2,233,000 square feet of GLA to our property portfolio. We purchased our 20 properties on the following dates:

Property	Ownership %	Date
Southpointe Office Parke and Epler Parke I	100%	January 22, 2007
Crawfordsville Medical Office Park and Athens Surgery Center	100%	January 22, 2007
The Gallery Professional Building	100%	March 9, 2007
Lenox Office Park, Building G	100%	March 23, 2007
Commons V Medical Office Building	100%	April 24, 2007
Yorktown Medical Center and Shakerag Medical Center	100%	May 2, 2007
Thunderbird Medical Plaza	100%	May 15, 2007
Triumph Hospital Northwest and Triumph Hospital Southwest	100%	June 8, 2007
Gwinnett Professional Center	100%	July 27, 2007
1 and 4 Market Exchange	100%	August 15, 2007
Kokomo Medical Office Park	100%	August 30, 2007
St. Mary Physicians Center	100%	September 5, 2007
2750 Monroe Boulevard	100%	September 10, 2007
East Florida Senior Care Portfolio	100%	September 28, 2007
Northmeadow Medical Center	100%	November 15, 2007
Tucson Medical Office Portfolio	100%	November 20, 2007
Lima Medical Office Portfolio	100%	December 7, 2007
Highlands Ranch Medical Plaza	100%	December 19, 2007
Park Place Office Park	100%	December 20, 2007
Chesterfield Rehabilitation Center	80.0%	December 20, 2007

Results of operations for the properties are reflected in our consolidated statements of operations for the year ended December 31, 2007 for the periods subsequent to the acquisition dates. The aggregate purchase price of the 20 consolidated properties was \$408,440,000 plus closing costs of \$14,587,000, of which \$301,160,000 was initially financed with mortgage loans, unsecured note payables to an affiliate or borrowings under our secured revolving line of credit with LaSalle and KeyBank.

Table of Contents**Grubb & Ellis Healthcare REIT, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In accordance with SFAS No. 141, we allocated the purchase price to the fair value of the assets acquired and the liabilities assumed, including the allocation of the intangibles associated with the in-place leases considering the following factors: lease origination costs and tenant relationships. Certain allocations as of December 31, 2007 are subject to change based on information received within one year of the purchase date related to one or more events at the time of purchase which confirm the value of an asset acquired or a liability assumed in an acquisition of a property. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition for our properties where the purchase price exceeded 10.0% of the aggregate purchase price of the 20 properties and all other properties aggregated together:

	East Florida Senior Care Portfolio		All Other Properties		Total	
Land	\$	10,078,000	\$	42,350,000	\$	52,428,000
Building and improvements		34,870,000		269,267,000		304,137,000
Above market leases				3,348,000		3,348,000
In place leases		2,612,000		26,481,000		29,093,000
Tenant relationships		6,316,000		26,482,000		32,798,000
Leasehold interest				3,117,000		3,117,000
Total assets acquired		53,876,000		371,045,000		424,921,000
Below market leases				(1,894,000)		(1,894,000)
Total liabilities assumed				(1,894,000)		(1,894,000)
Net assets acquired	\$	53,876,000	\$	369,151,000	\$	423,027,000

Assuming all of the acquisitions discussed above had occurred on January 1, 2007, for the year ended December 31, 2007, pro forma revenues, net income (loss) and net income (loss) per diluted share would have been \$45,209,000, \$(18,780,000) and \$(1.89), respectively. Assuming all of the acquisitions discussed above had occurred on April 28, 2006 (Date of Inception), for the period from April 28, 2006 (Date of Inception) through December 31, 2006, pro forma revenues, net income (loss) and net income (loss) per diluted share would have been \$30,517,000, \$(10,834,000) and \$(1.09), respectively. The pro forma results are not necessarily indicative of the operating results that would have been obtained had the acquisitions occurred at the beginning of the periods presented, nor are they necessarily indicative of future operating results.

Table of Contents**Grubb & Ellis Healthcare REIT, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****18. Selected Quarterly Financial Data (Unaudited)**

Set forth below is the unaudited selected quarterly financial data. We believe that all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly, and in accordance with GAAP, the unaudited selected quarterly financial data when read in conjunction with our consolidated financial statements.

	Quarters Ended			
	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007
Revenues	\$ 8,914,000	\$ 4,787,000	\$ 3,183,000	\$ 742,000
Expenses	(8,850,000)	(5,545,000)	(3,726,000)	(1,003,000)
Income (loss) before other income (expense)	64,000	(758,000)	(543,000)	(261,000)
Other income (expense)	(4,062,000)	(1,175,000)	(660,000)	(271,000)
Net loss	\$ (3,998,000)	\$ (1,933,000)	\$ (1,203,000)	\$ (532,000)
Loss per share basic and diluted	\$ (0.21)	\$ (0.15)	\$ (0.18)	\$ (0.73)
Weighted average number of shares outstanding basic and diluted	18,893,438	13,223,746	6,727,995	730,986
				Period from April 28, 2006 (Date of Inception) through June 30, 2006
		Quarters Ended		
		December 31, 2006	September 30, 2006	
Revenues	\$		\$	
Expenses		(192,000)	(50,000)	
Loss before other income (expense)		(192,000)	(50,000)	
Other income (expense)				
Net loss	\$	(192,000)	\$ (50,000)	\$
Loss per share basic and diluted	\$	(46.10)	\$ (88.84)	\$

Weighted average number of shares outstanding basic and diluted	4,167	559	200
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19. Subsequent Events

Status of our Offering

As of March 14, 2008, we had received and accepted subscriptions in our Offering for 25,933,558 shares of our common stock, or \$259,042,000 excluding shares issued under the DRIP.

Share Repurchases

In February 2008, we repurchased 12,270 shares, or \$123,000, under our share repurchase plan.

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Related Party Services Agreement

We entered into a services agreement, effective January 1, 2008, with Grubb & Ellis Realty Investors for subscription agreement processing and investor services. The services agreement has an initial one-year term and shall thereafter automatically be renewed for successive one year terms. Since Grubb & Ellis Realty Investors is the managing member of our advisor, the terms of this agreement were approved and determined by a majority of our independent directors as fair and reasonable to us and at fees charged to us in an amount no greater than the cost to Grubb & Ellis Realty Investors for providing such services to us, which amount shall be no greater than that which would be paid to an unaffiliated third party for similar services. The services agreement requires Grubb & Ellis Realty Investors to provide us with a 180 day advance written notice for any termination, while we have the right to terminate upon 30 days advance written notice.

Unaffiliated Third Party Acquisitions

Medical Portfolio 1

On February 1, 2008, we acquired Medical Portfolio 1, located in Kansas and Florida, or the Medical Portfolio 1 property, for a total purchase price of \$36,950,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with a secured loan of \$22,000,000 from Wachovia and \$16,000,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank. An acquisition fee of \$1,109,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Fort Road Medical Building

On March 6, 2008, we acquired Fort Road Medical Building, located in St. Paul, Minnesota, or the Fort Road property, for a total purchase price of \$8,650,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with a secured loan of \$5,800,000 from LaSalle, \$3,000,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank and with funds raised through our Offering. An acquisition fee of \$260,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Liberty Falls Medical Plaza

On March 19, 2008, we acquired Liberty Falls Medical Plaza, located in Liberty Township, Ohio, or the Liberty property, for a total purchase price of \$8,150,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with \$7,600,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank. An acquisition fee of \$245,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Epler Parke Building B

On March 24, 2008, we acquired Epler Parke Building B, located in Indianapolis, Indiana, or the Epler B property, for a total purchase price of \$5,850,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with \$6,100,000 in borrowings under our secured revolving line of credit

with LaSalle and KeyBank. An acquisition fee of \$176,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Cypress Station Medical Building

On March 25, 2008, we acquired Cypress Station Medical Building, located in Houston, Texas, or the Cypress property, for a total purchase price of \$11,200,000, plus closing costs. We acquired the property from an unaffiliated third party. We financed the purchase price of the property with a secured loan of \$7,300,000

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

from National City Bank and \$4,500,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank. An acquisition fee of \$336,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Proposed Unaffiliated Third Party Acquisitions

On March 10, 2008, our board of directors approved the acquisitions of: (i) Senior Care Portfolio 1 located in California and Texas for a total purchase price of \$39,600,000, plus closing costs; and (ii) Vista Professional Center, located in Lakeland, Florida for a total purchase price of \$5,250,000, plus closing costs. We intend to finance the purchases through debt financing.

We expect to pay our advisor and its affiliate an acquisition fee of \$1,188,000 and \$158,000, respectively, or 3.0% of the respective purchase prices, in connection with the acquisition of Senior Care Portfolio 1 and Vista Professional Center. We anticipate that the closings will occur in the first quarter of 2008; however, the closings are subject to certain agreed upon conditions and there can be no assurance that we will be able to complete the acquisition of Senior Care Portfolio 1 and Vista Professional Center.

Table of Contents**Grubb & Ellis Healthcare REIT, Inc.****SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS****December 31, 2007**

Description	Balance at Beginning of Period	Additions Charged		Balance at End of Period
		to Costs and Expenses	Charged to Other Accounts	
Year Ended December 31, 2007 Reserve deducted from accounts receivable	\$	\$ 7,000	\$	\$ 7,000
Period from April 28, 2006 (Date of Inception) through December 31, 2006 Reserve deducted from accounts receivable	\$	\$	\$	\$

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Grubb & Ellis Healthcare REIT, Inc.

**SCHEDULE III REAL ESTATE OPERATING PROPERTIES AND
ACCUMULATED DEPRECIATION
December 31, 2007**

	Initial Cost to Company		Gross Amounts at Which Carried at Close of Period (b)			Accumulated Depreciation
	Land	Building and Improvements	Land	Buildings and Improvements	Total (a)	
9,146,000	\$ 2,889,000	\$ 10,014,000	\$ 2,889,000	\$ 10,102,000	\$ 12,991,000	(
4,264,000	699,000	5,473,000	699,000	5,473,000	6,172,000	(
6,000,000	1,157,000	5,009,000	1,157,000	5,624,000	6,781,000	(
12,000,000	1,670,000	13,626,000	1,670,000	13,646,000	15,316,000	(
10,000,000	4,173,000	9,070,000	4,173,000	9,070,000	13,243,000	(
13,530,000	3,545,000	15,792,000	3,545,000	15,799,000	19,344,000	(

14,000,000	3,842,000	19,680,000	3,842,000	19,728,000	23,570,000	(
	3,047,000	28,541,000	3,047,000	28,540,000	31,587,000	(
5,699,000	1,290,000	7,238,000	1,290,000	7,251,000	8,541,000	(
14,500,000	2,326,000	17,204,000	2,326,000	17,200,000	19,526,000	(
8,300,000	1,779,000	9,640,000	1,779,000	9,700,000	11,479,000	(
8,280,000	1,815,000	10,241,000	1,815,000	10,234,000	12,049,000	(
	2,323,000	22,634,000	2,323,000	22,656,000	24,979,000	(
30,384,000	10,078,000	34,870,000	10,078,000	34,870,000	44,948,000	(
8,000,000	1,245,000	9,104,000	1,245,000	9,246,000	10,491,000	

	1,309,000	17,576,000	1,309,000	17,576,000	18,885,000
	701,000	18,303,000	701,000	18,303,000	19,004,000
8,853,000	2,240,000	10,396,000	2,240,000	10,406,000	12,646,000
10,943,000	1,987,000	11,169,000	1,987,000	11,169,000	13,156,000
22,000,000	4,313,000	28,557,000	4,313,000	28,557,000	32,870,000
85,899,000	\$ 52,428,000	\$ 304,137,000	\$ 52,428,000	\$ 305,150,000	\$ 357,578,000
					\$ (4,

Table of Contents**Grubb & Ellis Healthcare REIT, Inc.****SCHEDULE III REAL ESTATE OPERATING PROPERTIES AND
ACCUMULATED DEPRECIATION (Continued)**

(a) The changes in total real estate for the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006 are as follows:

	Amount
Balance as of April 28, 2006 (Date of Inception)	\$
Acquisitions	
Additions	
Disposals	
Balance as of December 31, 2006	
Acquisitions	356,565,000
Additions	1,046,000
Disposals	(33,000)
Balance as of December 31, 2007	\$ 357,578,000

Table of Contents**Grubb & Ellis Healthcare REIT, Inc.****SCHEDULE III REAL ESTATE OPERATING PROPERTIES AND
ACCUMULATED DEPRECIATION (Continued)**

(b) For federal income tax purposes, the aggregate cost of our 20 properties is as follows:

Property	Acquisition Date	Tax Basis
Southpointe Office Parke and Epler Parke I	January 22, 2007	\$ 15,475,000
Crawfordsville Medical Office Park and Athens Surgery Center	January 22, 2007	\$ 7,289,000
The Gallery Professional Building	March 9, 2007	\$ 10,479,000
Lenox Office Park, Building G	March 23, 2007	\$ 18,644,000
Commons V Medical Office Building	April 24, 2007	\$ 15,112,000
Yorktown Medical Center and Shakerag Medical Center	May 2, 2007	\$ 22,272,000
Thunderbird Medical Plaza	May 15, 2007	\$ 25,898,000
Triumph Hospital Northwest and Triumph Hospital Southwest	June 8, 2007	\$ 37,656,000
Gwinnett Professional Center	July 27, 2007	\$ 9,782,000
1 and 4 Market Exchange	August 15, 2007	\$ 22,685,000
Kokomo Medical Office Park	August 30, 2007	\$ 13,861,000
St. Mary Physicians Center	September 5, 2007	\$ 14,291,000
2750 Monroe Boulevard	September 10, 2007	\$ 27,868,000
East Florida Senior Care Portfolio	September 28, 2007	\$ 54,029,000
Northmeadow Medical Center	November 15, 2007	\$ 12,239,000
Tucson Medical Office Portfolio	November 20, 2007	\$ 21,809,000
Lima Medical Office Portfolio	December 7, 2007	\$ 26,319,000
Highlands Ranch Medical Plaza	December 19, 2007	\$ 15,079,000
Park Place Office Park	December 20, 2007	\$ 16,298,000
Chesterfield Rehabilitation Center	December 20, 2007	\$ 37,766,000

Table of Contents**SCHEDULE III REAL ESTATE OPERATING PROPERTIES AND
ACCUMULATED DEPRECIATION (Continued)**

(c) The changes in accumulated depreciation for the year ended December 31, 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006 are as follows:

	Amount
Balance as of April 28, 2006 (Date of Inception)	\$
Additions	
Disposals	
Balance as of December 31, 2006	
Additions	4,590,000
Disposals	(2,000)
Balance as of December 31, 2007	\$ 4,588,000

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Grubb & Ellis Healthcare REIT, Inc.

(Registrant)

By /s/ Scott D. Peters Chief Executive Officer and President
(principal executive officer)

Scott D. Peters

Date March 25, 2008

By /s/ Shannon K S Johnson Chief Financial Officer
(principal financial officer)

Shannon K S Johnson

Date March 25, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/ Scott D. Peters Chief Executive Officer and President
(principal executive officer)

Scott D. Peters

Date March 25, 2008

By /s/ Shannon K S Johnson Chief Financial Officer
(principal financial officer)

Shannon K S Johnson

Date March 25, 2008

By /s/ Maurice J. DeWald Director

Maurice J. DeWald

Date March 25, 2008

By /s/ W. Bradley Blair, II Director

W. Bradley Blair, II

Date March 25, 2008

By /s/ Warren D. Fix Director

Warren D. Fix

Date March 25, 2008

By /s/ Larry L. Mathis Director

Larry L. Mathis

Date March 25, 2008

By /s/ Gary T. Wescombe Director

Gary T. Wescombe

Date March 25, 2008

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EXHIBIT INDEX

Following the consummation of the merger of NNN Realty Advisors, Inc., which previously served as our sponsor, with and into a wholly owned subsidiary of Grubb & Ellis Company on December 7, 2007, NNN Healthcare/Office REIT, Inc., NNN Healthcare/Office REIT Holdings, L.P., NNN Healthcare/Office REIT Advisor, LLC, NNN Healthcare/Office Management, LLC, Triple Net Properties, LLC and NNN Capital Corp. changed their names to Grubb & Ellis Healthcare REIT, Inc., Grubb & Ellis Healthcare REIT Holdings, L.P., Grubb & Ellis Healthcare REIT Advisor, LLC, Grubb & Ellis Healthcare Management, LLC, Grubb & Ellis Realty Investors, LLC, and Grubb & Ellis Securities, Inc. respectively. The following Exhibit List refers to the entity names used prior to the name changes in order to accurately reflect the names of the parties on the documents listed.

Pursuant to Item 601(a)(2) of Regulation S-K, this Exhibit Index immediately precedes the exhibits.

The following exhibits are included, or incorporated by reference, in this Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (and are numbered in accordance with Item 601 of Regulation S-K

- 1.1 Dealer Manager Agreement between NNN Healthcare/Office REIT, Inc. and NNN Capital Corp (included as Exhibit 1.1 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 and incorporated herein by reference)
- 1.1.1 Amendment No. 1 to Dealer Manager Agreement between NNN Healthcare/Office REIT, Inc. and NNN Capital Corp. (included as Exhibit 1.1.1 to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-11, filed on April 23, 2007 (File No. 333-133652) and incorporated herein by reference)
- 1.2 Form of Participating Broker-Dealer Agreement (included as Exhibit 1.2 to our Post-Effective Amendment No. 6 to our Registration Statement on Form S-11, filed on February 27, 2008 (File No. 333-133652) and incorporated herein by reference)
- 3.1 Third Articles of Amendment and Restatement of NNN Healthcare/Office REIT, Inc. (included as Exhibit 3.1 to our Annual Report on Form 10-K for the year ended December 31, 2006 and incorporated herein by reference)
- 3.2 Articles of Amendment, effective December 10, 2007 (included as Exhibit 3.1 to our Current Report on Form 8-K filed December 10, 2007)
- 3.3 Bylaws of NNN Healthcare/Office REIT, Inc. (included as Exhibit 3.3 to our Registration Statement on Form S-11, filed on April 23, 2006 (File No. 333-133652) and incorporated herein by reference)
- 4.1 Form of Subscription Agreement to be used beginning January 1, 2008 (included as Exhibit C to our Prospectus dated December 14, 2007)
- 4.2 Distribution Reinvestment Plan (included as Appendix D to the Prospectus)
- 4.3 Share Repurchase Plan (included as Appendix E to the Prospectus)
- 4.4 Escrow Agreement (included as Exhibit 4.4 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 and incorporated herein by reference)
- 10.1 Advisory Agreement among NNN Healthcare/Office REIT, Inc., NNN Healthcare/Office REIT Holdings, L.P., NNN Healthcare/Office REIT Advisor, LLC and Triple Net Properties, LLC (included as Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 and incorporated herein by reference)
- 10.1.1 Amendment No. 1 to Advisory Agreement among NNN Healthcare/Office REIT, Inc., NNN Healthcare/Office REIT Holdings, L.P., NNN Healthcare/Office REIT Advisor, LLC and Triple Net Properties, LLC (included as Exhibit 10.1.1 to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-11, filed on April 23, 2007 (File No. 333-133652) and incorporated herein by reference)

- 10.2 Agreement of Limited Partnership of NNN Healthcare/Office REIT Holdings, L.P. (included as Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 and incorporated herein by reference)

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- 10.3 NNN Healthcare/Office REIT, Inc. 2006 Incentive Plan (including the 2006 Independent Directors Compensation Plan) (included as Exhibit 3.3 to our Registration Statement on Form S-11, filed on April 23, 2006 (File No. 333-133652) and incorporated herein by reference)
- 10.4 Amendment to the NNN Healthcare/Office REIT, Inc. 2006 Incentive Plan (including the 2006 Independent Directors Compensation Plan) (included as Exhibit 10.4 to Amendment No. 4 to our Registration Statement on Form S-11, filed on September 12, 2006 (File No. 333-133652) and incorporated herein by reference)
- 10.5 Form of Indemnification agreement executed by W. Bradley Blair, II, Maurice J. DeWald, Warren D. Fix, Gary T. Wescombe, Scott D. Peters, Danny Prosky, Andrea R. Biller, Shannon K S Johnson and Larry L. Mathis (included as Exhibit 10.1 to our Current Report on Form 8-K filed on March 5, 2007 and incorporated herein by reference)
- 10.6 Deed to Secure Debt Note by and between Gwinnett Professional Center, Ltd. and Archon Financial, L.P., dated December 30, 2003 (included as Exhibit 10.5 to our Current Report on Form 8-K filed on August 2, 2007 and incorporated herein by reference)
- 10.7 Deed to Secure Debt, Assignment of Rents and Security Agreement by Gwinnett Professional Center, Ltd. to Archon Financial, L.P., dated December 30, 2003 (included as Exhibit 10.6 to our Current Report on Form 8-K filed on August 2, 2007 and incorporated herein by reference)
- 10.8 Promissory Note dated August 18, 2006 issued by NNN Southpointe, LLC to LaSalle Bank National Association (included as Exhibit 10.13 to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-11, filed on April 23, 2007 (File No. 333-133652) and incorporated herein by reference)
- 10.9 Promissory Note dated August 18, 2006 issued by NNN Southpointe, LLC and NNN Crawfordsville, LLC to LaSalle Bank National Association (included as Exhibit 10.14 to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-11, filed on April 23, 2007 (File No. 333-133652) and incorporated herein by reference)
- 10.10 Mortgage, Security Agreement and Fixture Filing dated August 18, 2006 by NNN Southpointe, LLC for the benefit of LaSalle Bank National Association (included as Exhibit 10.15 to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-11, filed on April 23, 2007 (File No. 333-133652) and incorporated herein by reference)
- 10.11 Subordinate Mortgage, Security Agreement and Fixture Filing dated August 18, 2006 by NNN Southpointe, LLC for the benefit of LaSalle Bank National Association (included as Exhibit 10.16 to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-11, filed on April 23, 2007 (File No. 333-133652) and incorporated herein by reference)
- 10.12 Guaranty dated August 18, 2006 by Triple Net Properties, LLC for the benefit of LaSalle Bank National Association included as Exhibit 10.17 to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-11, filed on April 23, 2007 (File No. 333-133652) and incorporated herein by reference)
- 10.13 Guaranty (Securities Laws) dated August 18, 2006 by Triple Net Properties, LLC in favor of LaSalle Bank National Association (included as Exhibit 10.18 to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-11, filed on April 23, 2007 (File No. 333-133652) and incorporated herein by reference)
- 10.14 Guaranty of Payment dated August 18, 2006 by Triple Net Properties, LLC for the benefit of LaSalle Bank National Association (included as Exhibit 10.19 to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-11, filed on April 23, 2007 (File No. 333-133652) and incorporated herein by reference)
- 10.15 Assignment of Leases and Rents dated August 18, 2006 by NNN Southpointe, LLC in favor of LaSalle Bank National Association (included as Exhibit 10.20 to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-11, filed on April 23, 2007 (File No. 333-133652) and incorporated

herein by reference)

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- 10.16 Hazardous Substance Indemnification Agreement dated August 18, 2006 by NNN Southpointe, LLC and Triple Net Properties, LLC for the benefit of LaSalle Bank National Association (included as Exhibit 10.21 to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-11, filed on April 23, 2007 (File No. 333-133652) and incorporated herein by reference)
- 10.17 Promissory Note dated September 12, 2006 issued by NNN Crawfordsville, LLC to LaSalle Bank National Association (included as Exhibit 10.22 to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-11, filed on April 23, 2007 (File No. 333-133652) and incorporated herein by reference)
- 10.18 Mortgage, Security Agreement and Fixture Filing dated September 12, 2006 by NNN Crawfordsville, LLC for the benefit of LaSalle Bank National Association (included as Exhibit 10.23 to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-11, filed on April 23, 2007 (File No. 333-133652) and incorporated herein by reference)
- 10.19 Subordinate Mortgage, Security Agreement and Fixture Filing dated September 12, 2006 by NNN Crawfordsville, LLC for the benefit of LaSalle Bank National Association (included as Exhibit 10.24 to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-11, filed on April 23, 2007 (File No. 333-133652) and incorporated herein by reference)
- 10.20 Guaranty dated September 12, 2006 by Triple Net Properties, LLC for the benefit of LaSalle Bank National Association (included as Exhibit 10.25 to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-11, filed on April 23, 2007 (File No. 333-133652) and incorporated herein by reference)
- 10.21 Guaranty (Securities Laws) dated September 12, 2006 by Triple Net Properties, LLC in favor of LaSalle Bank National Association (included as Exhibit 10.26 to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-11, filed on April 23, 2007 (File No. 333-133652) and incorporated herein by reference)
- 10.22 Assignment of Leases and Rents dated September 12, 2006 by NNN Crawfordsville, LLC in favor of LaSalle Bank National Association (included as Exhibit 10.27 to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-11, filed on April 23, 2007 (File No. 333-133652) and incorporated herein by reference)
- 10.23 Hazardous Substance Indemnification Agreement dated September 12, 2006 by NNN Crawfordsville, LLC and Triple Net Properties, LLC for the benefit of LaSalle Bank National Association (included as Exhibit 10.28 to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-11, filed on April 23, 2007 (File No. 333-133652) and incorporated herein by reference)
- 10.24 Secured Promissory Note by and between NNN Lenox Medical, LLC and LaSalle Bank National Association, dated January 2, 2007 (included as Exhibit 10.5 to our Current Report on Form 8-K filed on March 26, 2007 and incorporated herein by reference)
- 10.25 Deed of Trust, Security Agreement and Fixtures Filings by and among NNN Lenox Medical, LLC and LaSalle Bank National Association, dated January 2, 2007 (included as Exhibit 10.6 to our Current Report on Form 8-K filed on March 26, 2007 and incorporated herein by reference)
- 10.26 Guaranty by and among NNN Realty Advisors, Inc., and LaSalle Bank National Association, dated January 2, 2007 (included as Exhibit 10.7 to our Current Report on Form 8-K filed on March 26, 2007 and incorporated herein by reference)
- 10.27 Guaranty (Securities Laws) by and among LaSalle Bank National Association and NNN Realty Advisors, Inc., dated January 2, 2007 (included as Exhibit 10.8 to our Current Report on Form 8-K filed on March 26, 2007 and incorporated herein by reference)
- 10.28 Hazardous Substances Indemnification Agreement by and among NNN Lenox Medical, LLC, Triple Net Properties, LLC, and LaSalle Bank National Association, dated January 2, 2007 (included as Exhibit 10.9 to our Current Report on Form 8-K filed on March 26, 2007 and incorporated herein by reference)
- 10.29

Assignment of Leases and Rents by and among NNN Lenox Medical, LLC and LaSalle Bank National Association, dated January 2, 2007 (included as Exhibit 10.10 to our Current Report on Form 8-K filed on March 26, 2007 and incorporated herein by reference)

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- 10.30 Membership Interest Purchase and Sale Agreement by and between NNN South Crawford Member, LLC, NNN Southpointe, LLC and NNN Healthcare/Office REIT Holdings, L.P. dated January 22, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed on January 25, 2007 and incorporated herein by reference)
- 10.31 Membership Interest Assignment Agreement by and between NNN South Crawford Member, LLC, and NNN Healthcare/Office REIT Holdings, L.P. dated January 22, 2007 (included as Exhibit 10.2 to our Current Report on Form 8-K filed on January 25, 2007 and incorporated herein by reference)
- 10.32 Membership Interest Purchase and Sale Agreement by and between NNN South Crawford Member, LLC, NNN Crawfordsville, LLC and NNN Healthcare/Office REIT Holdings, L.P. dated January 22, 2007 (included as Exhibit 10.3 to our Current Report on Form 8-K filed on January 25, 2007 and incorporated herein by reference)
- 10.33 Membership Interest Assignment Agreement by and between NNN South Crawford Member, LLC, and NNN Healthcare/Office REIT Holdings, L.P. dated January 22, 2007 (included as Exhibit 10.4 to our Current Report on Form 8-K filed on January 25, 2007 and incorporated herein by reference)
- 10.34 Consent to Transfer and Agreement by and among NNN South Crawford Member, LLC, NNN Southpointe, LLC, NNN Healthcare/Office REIT Holdings, L.P., Triple Net Properties, LLC and LaSalle Bank National Association, dated January 22, 2007 (included as Exhibit 10.5 to our Current Report on Form 8-K filed on January 25, 2007 and incorporated herein by reference)
- 10.35 Consent to Transfer and Agreement by and among NNN South Crawford Member, LLC, NNN Crawfordsville, LLC, NNN Healthcare/Office REIT Holdings, L.P., Triple Net Properties, LLC and LaSalle Bank National Association, dated January 22, 2007 (included as Exhibit 10.6 to our Current Report on Form 8-K filed on January 25, 2007 and incorporated herein by reference)
- 10.36 Promissory Note issued by NNN Healthcare/Office REIT Holdings, L.P. in favor of NNN Realty Advisors, Inc. dated January 22, 2007 (included as Exhibit 10.7 to our Current Report on Form 8-K filed on January 25, 2007 and incorporated herein by reference)
- 10.37 Mortgage, Security Agreement and Fixture Filing by and between NNN Gallery Medical, LLC, and LaSalle Bank National Association, dated February 5, 2007 (included as Exhibit 10.3 to our Current Report on Form 8-K filed on March 13, 2007 and incorporated herein by reference)
- 10.38 Membership Interest Purchase and Sale Agreement by and between NNN Gallery Medical Member, LLC, NNN Gallery Medical, LLC and NNN Healthcare/Office REIT Holdings, L.P. dated March 9, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed on March 13, 2007 and incorporated herein by reference)
- 10.39 Membership Interest Assignment Agreement by and between NNN Gallery Medical Member, LLC, and NNN Healthcare/Office REIT Holdings, L.P. dated March 9, 2007 (included as Exhibit 10.2 to our Current Report on Form 8-K filed on March 13, 2007 and incorporated herein by reference)
- 10.40 Secured Promissory Note by and between NNN Gallery Medical, LLC and LaSalle Bank National Association, dated March 9, 2007 (included as Exhibit 10.4 to our Current Report on Form 8-K filed on March 13, 2007 and incorporated herein by reference)
- 10.41 Unsecured Promissory Note by and between NNN Healthcare/Office REIT Holdings, L.P., and NNN Realty Advisors, Inc., dated March 9, 2007 (included as Exhibit 10.5 to our Current Report on Form 8-K filed on March 13, 2007 and incorporated herein by reference)
- 10.42 Consent to Transfer and Agreement by and among NNN Gallery Medical, LLC, NNN Healthcare/Office REIT Holdings, L.P., NNN Gallery Medical Member, LLC, NNN Realty Advisors, Inc., and LaSalle Bank National Association, dated March 9, 2007 (included as Exhibit 10.6 to our Current Report on Form 8-K filed on March 13, 2007 and incorporated herein by reference)
- 10.43 Agreement for Purchase and Sale of Real Property and Escrow Instructions by and between Commons V Investment Partnership, Triple Net Properties, LLC and Landamerica Title Company, dated March 16, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed on April 25, 2007 and incorporated

herein by reference)

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- 10.44 Membership Interest Purchase and Sale Agreement by and between NNN Lenox Medical Member, LLC, Triple Net Properties, LLC, NNN Lenox Medical, LLC, NNN Lenox Medical Land, LLC and NNN Healthcare/Office REIT Holdings, L.P., dated March 20, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed on March 26, 2007 and incorporated herein by reference)
- 10.45 Membership Interest Assignment Agreement by and between NNN Lenox Medical Member, LLC, and NNN Healthcare/Office REIT Holdings, L.P., dated March 23, 2007 (included as Exhibit 10.2 to our Current Report on Form 8-K filed on March 26, 2007 and incorporated herein by reference)
- 10.46 Membership Interest Assignment Agreement by and between Triple Net Properties, LLC, and NNN Healthcare/Office REIT Holdings, L.P., dated March 23, 2007 (included as Exhibit 10.3 to our Current Report on Form 8-K filed on March 26, 2007 and incorporated herein by reference)
- 10.47 Consent to Transfer and Assignment by and among NNN Lenox Medical, LLC, NNN Healthcare/Office REIT Holdings, L.P., NNN Lenox Medical Member, LLC, NNN Realty Advisors, Inc., and LaSalle Bank National Association, dated March 23, 2007 (included as Exhibit 10.4 to our Current Report on Form 8-K filed on March 26, 2007 and incorporated herein by reference)
- 10.48 Agreement of Sale and Purchase by and between Yorktown Building Holding Company, LLC and Triple Net Properties, LLC, dated March 29, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed on May 7, 2007 and incorporated herein by reference)
- 10.49 Sale Agreement and Escrow Instructions by and between 5410 & 5422 W. Thunderbird Road, LLC, et al. and 5310 West Thunderbird Road, LLC, et al., Triple Net Properties, LLC and Chicago Title Company as Escrow Agent, dated April 6, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed on May 17, 2007 and incorporated herein by reference)
- 10.50 First Amendment to Agreement for Purchase and Sale of Real Property and Escrow Instructions by and between Commons V Investment Partnership and Triple Net Properties, LLC, dated April 9, 2007 (included as Exhibit 10.2 to our Current Report on Form 8-K filed on April 25, 2007 and incorporated herein by reference)
- 10.51 Assignment of Contract by and between Triple Net Properties, LLC and NNN Healthcare/Office REIT Commons V, LLC, dated April 19, 2007 (included as Exhibit 10.3 to our Current Report on Form 8-K filed on April 25, 2007 and incorporated herein by reference)
- 10.52 Assignment and Assumption Agreement by and between Commons V Investment Partnership and NNN Healthcare/Office REIT Commons V, LLC, dated April 24, 2007 (included as Exhibit 10.4 to our Current Report on Form 8-K filed on April 25, 2007 and incorporated herein by reference)
- 10.53 Agreement for Purchase and Sale of Real Property and Escrow Instructions between Hollow Tree, L.L.P., Triple Net Properties, LLC, and LandAmerica Title Company as Escrow Agent, dated April 30, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed on June 14, 2007 and incorporated herein by reference)
- 10.54 Agreement for Purchase and Sale of Real Property and Escrow Instructions between First Colony Investments, L.L.P., Triple Net Properties, LLC, and LandAmerica Title Company as Escrow Agent, dated April 30, 2007 (included as Exhibit 10.2 to our Current Report on Form 8-K filed on June 14, 2007 and incorporated herein by reference)
- 10.55 Assignment of Contract by and between Triple Net Properties, LLC and NNN Healthcare/Office REIT Peachtree, LLC, dated May 1, 2007 (included as Exhibit 10.2 to our Current Report on Form 8-K filed on May 7, 2007 and incorporated herein by reference)
- 10.56 Secured Promissory Note by and between NNN Healthcare/Office REIT Peachtree, LLC and Wachovia Bank, National Association, dated May 1, 2007 (included as Exhibit 10.3 to our Current Report on Form 8-K filed on May 7, 2007 and incorporated herein by reference)
- 10.57 Deed to Secure Debt, Security Agreement and Fixture Filing by and between NNN Healthcare/Office REIT Peachtree, LLC and Wachovia Bank National Association, dated May 1, 2007 (included as Exhibit 10.4 to our Current Report on Form 8-K filed on May 7, 2007 and incorporated herein by reference)

- 10.58 Indemnity and Guaranty Agreement by and between NNN Healthcare/Office REIT, Inc. and Wachovia Bank, National Association, dated May 1, 2007 (included as Exhibit 10.5 to our Current Report on Form 8-K filed on May 7, 2007 and incorporated herein by reference)

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- 10.59 SEC Indemnity and Guaranty Agreement by and between NNN Healthcare/Office REIT, Inc. and Wachovia Bank, National Association, dated May 1, 2007 (included as Exhibit 10.6 to our Current Report on Form 8-K filed on May 7, 2007 and incorporated herein by reference)
- 10.60 Environmental Indemnity Agreement by and between NNN Healthcare/Office REIT, Inc. and Wachovia Bank, National Association, dated May 1, 2007 (included as Exhibit 10.7 to our Current Report on Form 8-K filed on May 7, 2007 and incorporated herein by reference)
- 10.61 Assignment of Leases and Rents by and between NNN Healthcare/Office REIT Peachtree, LLC and Wachovia Bank, National Association, dated May 1, 2007 (included as Exhibit 10.8 to our Current Report on Form 8-K filed on May 7, 2007 and incorporated herein by reference)
- 10.62 Assignment of Contract by and between Triple Net Properties, LLC and NNN Healthcare/Office REIT Thunderbird Medical, LLC, dated May 11, 2007 (included as Exhibit 10.2 to our Current Report on Form 8-K filed on May 17, 2007 and incorporated herein by reference)
- 10.63 First Amendment to Sale Agreement and Escrow Instructions by and between NNN Healthcare/Office REIT Thunderbird Medical, LLC and 5310 West Thunderbird Road, LLC, et al., dated May 14, 2007 (included as Exhibit 10.3 to our Current Report on Form 8-K filed on May 17, 2007 and incorporated herein by reference)
- 10.64 First Amendment to Sale Agreement and Escrow Instructions by and between NNN Healthcare/Office REIT Thunderbird Medical, LLC and 5410 & 5422 W. Thunderbird Road, LLC, et al., dated May 14, 2007 (included as Exhibit 10.4 to our Current Report on Form 8-K filed on May 17, 2007 and incorporated herein by reference)
- 10.65 Promissory Note issued by NNN Healthcare/Office REIT Commons V, LLC in favor of Wachovia Bank, National Association, dated May 14, 2007 (included as Exhibit 10.5 to our Current Report on Form 8-K filed on May 17, 2007 and incorporated herein by reference)
- 10.66 Mortgage, Security Agreement and Fixture Filing by and between NNN Healthcare/Office REIT Commons V, LLC and Wachovia Bank, National Association, dated May 14, 2007 (included as Exhibit 10.6 to our Current Report on Form 8-K filed on May 17, 2007 and incorporated herein by reference)
- 10.67 Indemnity and Guaranty Agreement by and between NNN Healthcare/Office REIT, Inc. and Wachovia Bank, National Association, dated May 14, 2007 (included as Exhibit 10.7 to our Current Report on Form 8-K filed on May 17, 2007 and incorporated herein by reference)
- 10.68 Environmental Indemnity Agreement by and between NNN Healthcare/Office REIT, Inc. and Wachovia Bank, National Association, dated May 14, 2007 (included as Exhibit 10.8 to our Current Report on Form 8-K filed on May 17, 2007 and incorporated herein by reference)
- 10.69 Assignment of Leases and Rents by and between NNN Healthcare/Office REIT Commons V, LLC and Wachovia Bank, National Association, dated May 14, 2007 (included as Exhibit 10.9 to our Current Report on Form 8-K filed on May 17, 2007 and incorporated herein by reference)
- 10.70 Real Estate Purchase Agreement by and between Triple Net Properties, LLC and Gwinnett Professional Center Ltd., dated May 24, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed on August 2, 2007 and incorporated herein by reference)
- 10.71 Assignment of Contracts by Triple Net Properties, LLC to NNN Healthcare/Office REIT Triumph, LLC, dated June 8, 2007 (included as Exhibit 10.3 to our Current Report on Form 8-K filed on June 14, 2007 and incorporated herein by reference)
- 10.72 Promissory Note issued by NNN Healthcare/Office REIT Thunderbird Medical, LLC in favor of Wachovia Bank, National Association, dated June 8, 2007 (included as Exhibit 10.4 to our Current Report on Form 8-K filed on June 14, 2007 and incorporated herein by reference)
- 10.73 Deed of Trust, Security Agreement and Fixture Filing by NNN Healthcare/Office REIT Thunderbird Medical, LLC to TRSTE, Inc., as Trustee, for the benefit of Wachovia Bank, National Association, dated June 8, 2007 (included as Exhibit 10.5 to our Current Report on Form 8-K filed on June 14, 2007 and

incorporated herein by reference)

- 10.74 Indemnity and Guaranty Agreement by and between NNN Healthcare/Office REIT, Inc. and Wachovia Bank, National Association, dated June 8, 2007 (included as Exhibit 10.6 to our Current Report on Form 8-K filed on June 14, 2007 and incorporated herein by reference)

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- 10.75 Environmental Indemnity Agreement by and between NNN Healthcare/Office REIT, Inc. and Wachovia Bank, National Association, dated June 8, 2007 (included as Exhibit 10.7 to our Current Report on Form 8-K filed on June 14, 2007 and incorporated herein by reference)
- 10.76 Assignment of Leases and Rents by and between NNN Healthcare/Office REIT Thunderbird Medical, LLC and Wachovia Bank, National Association, dated June 8, 2007 (included as Exhibit 10.8 to our Current Report on Form 8-K filed on June 14, 2007 and incorporated herein by reference)
- 10.77 Unsecured Promissory Note by and between NNN Healthcare/Office REIT Holdings, L.P., and NNN Realty Advisors, Inc., dated June 8, 2007 (included as Exhibit 10.9 to our Current Report on Form 8-K filed on June 14, 2007 and incorporated herein by reference)
- 10.78 Agreement for Purchase and Sale of Real Property and Escrow Instructions by and between Kokomo Medical Office Park, L.P. and Triple Net Properties, LLC, dated June 12, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed on September 6, 2007 and incorporated herein by reference)
- 10.79 First Amendment to Agreement for Purchase and Sale of Real Property and Escrow Instructions by and between Kokomo Medical Office Park, L.P. and Triple Net Properties, LLC, dated June 25, 2007 (included as Exhibit 10.2 to our Current Report on Form 8-K filed on September 6, 2007 and incorporated herein by reference)
- 10.80 Purchase Agreement by and between Triple Net Properties, LLC and St. Mary Physicians Center, LLC, dated June 26, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed on September 11, 2007 and incorporated herein by reference)
- 10.81 Second Amendment to Agreement for Purchase and Sale of Real Property and Escrow Instructions by and between Kokomo Medical Office Park, L.P. and Triple Net Properties, LLC, dated July 10, 2007 (included as Exhibit 10.3 to our Current Report on Form 8-K filed on September 6, 2007 and incorporated herein by reference)
- 10.82 Third Amendment to Agreement for Purchase and Sale of Real Property and Escrow Instructions by and between Kokomo Medical Office Park, L.P. and Triple Net Properties, LLC, dated July 26, 2007 (included as Exhibit 10.4 to our Current Report on Form 8-K filed on September 6, 2007 and incorporated herein by reference)
- 10.83 Assignment and Assumption of Real Estate Purchase Agreement by and between Triple Net Properties, LLC and NNN Healthcare/Office REIT Gwinnett, LLC, dated July 27, 2007 (included as Exhibit 10.2 to our Current Report on Form 8-K filed on August 2, 2007 and incorporated herein by reference)
- 10.84 Loan Assumption and Substitution Agreement by and among NNN Healthcare/Office REIT Gwinnett, LLC, NNN Healthcare/Office REIT, Inc., Gwinnett Professional Center, Ltd., and LaSalle Bank National Association, dated July 27, 2007 (included as Exhibit 10.3 to our Current Report on Form 8-K filed on August 2, 2007 and incorporated herein by reference)
- 10.85 Allonge To Note by Gwinnett Professional Center, Ltd. to LaSalle Bank National Association, as Trustee, in favor of Archon Financial, L.P., dated July 27, 2007 (included as Exhibit 10.4 to our Current Report on Form 8-K filed on August 2, 2007 and incorporated herein by reference)
- 10.86 Agreement for Purchase and Sale of Real Property and Escrow Instructions by and between 4MX Partners, LLC, 515 Partners, LLC and Triple Net Properties, LLC, dated July 30, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed on August 17, 2007 and incorporated herein by reference)
- 10.87 Purchase Agreement by and between Lexington Valley Forge L.P. and Triple Net Properties, LLC, dated August 1, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed on September 14, 2007 and incorporated herein by reference)
- 10.88 Agreement for Purchase and Sale of Real Property and Escrow Instructions by and among Health Quest Realty XVII, Health Quest Realty XXII, Health Quest Realty XXXV and Triple Net Properties, LLC, dated August 6, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed October 4, 2007 and incorporated herein by reference)

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- 10.89 Fourth Amendment to Agreement for Purchase and Sale of Real Property and Escrow Instructions by and between Kokomo Medical Office Park, L.P. and Triple Net Properties, LLC, dated August 7, 2007 (included as Exhibit 10.5 to our Current Report on Form 8-K filed on September 6, 2007 and incorporated herein by reference)
- 10.90 Purchase and Sale Agreement by and between St. Rita's Medical Center and Triple Net Properties, LLC, dated August 14, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed December 13, 2007 and incorporated herein by reference)
- 10.91 Assignment and Assumption of Agreement for Purchase and Sale of Real Property and Escrow Instructions by and between Triple Net Properties, LLC and NNN Healthcare/Office REIT Market Exchange, LLC, dated August 15, 2007 (included as Exhibit 10.2 to our Current Report on Form 8-K filed on August 17, 2007 and incorporated herein by reference)
- 10.92 Assignment and Assumption of Agreement for Purchase and Sale of Real Property and Escrow Instructions by and between Triple Net Properties, LLC and NNN Healthcare/Office REIT Kokomo Medical Office Park, LLC, dated August 30, 2007 (included as Exhibit 10.6 to our Current Report on Form 8-K filed on September 6, 2007 and incorporated herein by reference)
- 10.93 Unsecured Promissory Note issued by NNN Healthcare/Office REIT Holdings, L.P. in favor of NNN Realty Advisors, Inc., dated August 30, 2007 (included as Exhibit 10.7 to our Current Report on Form 8-K filed on September 6, 2007 and incorporated herein by reference)
- 10.94 Assignment and Assumption of Purchase Agreement by and between Triple Net Properties, LLC and NNN Healthcare/Office REIT St. Mary Physician Center, LLC, dated September 5, 2007 (included as Exhibit 10.2 to our Current Report on Form 8-K filed on September 11, 2007 and incorporated herein by reference)
- 10.95 Note Secured by Deed of Trust issued by NNN Healthcare/Office REIT St. Mary Physician Center, LLC in favor of St. Mary Physicians Center, LLC, dated September 5, 2007 (included as Exhibit 10.3 to our Current Report on Form 8-K filed on September 11, 2007 and incorporated herein by reference)
- 10.96 Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing by NNN Healthcare/Office REIT St. Mary Physician Center, LLC to Lone Oak Industries Inc., as Trustee, in favor of St. Mary Physicians Center, LLC, dated September 5, 2007 (included as Exhibit 10.4 to our Current Report on Form 8-K filed on September 11, 2007 and incorporated herein by reference)
- 10.97 Unsecured Promissory Note issued by NNN Healthcare/Office REIT Holdings, L.P. in favor of NNN Realty Advisors, Inc., dated September 5, 2007 (included as Exhibit 10.5 to our Current Report on Form 8-K filed on September 11, 2007 and incorporated herein by reference)
- 10.98 Assignment and Assumption of Purchase Agreement by and between Triple Net Properties, LLC and NNN Healthcare/Office REIT Quest Diagnostics, LLC, dated September 10, 2007 (included as Exhibit 10.2 to our Current Report on Form 8-K filed on September 14, 2007 and incorporated herein by reference)
- 10.99 Loan Agreement by and between NNN Healthcare/Office REIT Holdings, L.P., The Financial Institutions Party Hereto, and LaSalle Bank National Association, dated September 10, 2007 (included as Exhibit 10.3 to our Current Report on Form 8-K filed on September 14, 2007 and incorporated herein by reference)
- 10.100 Promissory Note issued by NNN Healthcare/Office REIT Holdings, L.P. in favor of LaSalle Bank National Association, dated September 10, 2007 (included as Exhibit 10.4 to our Current Report on Form 8-K filed on September 14, 2007 and incorporated herein by reference)
- 10.101 Contribution Agreement by and between NNN Healthcare/Office REIT Holdings, L.P. and the Subsidiary Guarantors, dated September 10, 2007 (included as Exhibit 10.5 to our Current Report on Form 8-K filed on September 14, 2007 and incorporated herein by reference)
- 10.102 Guaranty of Payment executed by NNN Healthcare/Office REIT, Inc. for the benefit of LaSalle Bank National Association, dated September 10, 2007 (included as Exhibit 10.6 to our Current Report on Form 8-K filed on September 14, 2007 and incorporated herein by reference)

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- 10.103 Open End Real Property Mortgage, Security Agreement, Assignment of Rents and Leases and Fixture Filing by NNN Healthcare/Office REIT Quest Diagnostics, LLC for the benefit of LaSalle Bank National Association, dated September 10, 2007 (included as Exhibit 10.7 to our Current Report on Form 8-K filed on September 14, 2007 and incorporated herein by reference)
- 10.104 Commercial Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing by NNN Healthcare/Office REIT Triumph, LLC to Jeffrey C. Baker, as Trustee, for the benefit of LaSalle Bank National Association, dated September 10, 2007 (included as Exhibit 10.8 to our Current Report on Form 8-K filed on September 14, 2007 and incorporated herein by reference)
- 10.105 Commercial Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing by NNN Healthcare/Office REIT Triumph, LLC to Jeffrey C. Baker, as Trustee, for the benefit of LaSalle Bank National Association, dated September 10, 2007 (included as Exhibit 10.9 to our Current Report on Form 8-K filed on September 14, 2007 and incorporated herein by reference)
- 10.106 Environmental Indemnity Agreement executed by NNN Healthcare/Office REIT Holdings, L.P., NNN Healthcare/Office REIT Quest Diagnostics, LLC, and NNN Healthcare/Office REIT, Inc. for the benefit of LaSalle Bank National Association, dated September 10, 2007 (included as Exhibit 10.10 to our Current Report on Form 8-K filed on September 14, 2007 and incorporated herein by reference)
- 10.107 Environmental Indemnity Agreement executed by NNN Healthcare/Office REIT Holdings, L.P., NNN Healthcare/Office REIT Triumph, LLC, and NNN Healthcare/Office REIT, Inc. for the benefit of LaSalle Bank National Association, dated September 10, 2007 (included as Exhibit 10.11 to our Current Report on Form 8-K filed on September 14, 2007 and incorporated herein by reference)
- 10.108 Joinder Agreement executed by NNN Healthcare/Office REIT Quest Diagnostics, LLC in favor of LaSalle Bank National Association, dated September 10, 2007 (included as Exhibit 10.12 to our Current Report on Form 8-K filed on September 14, 2007 and incorporated herein by reference)
- 10.109 Joinder Agreement executed by NNN Healthcare/Office REIT Triumph, LLC in favor of LaSalle Bank National Association, dated September 10, 2007 (included as Exhibit 10.13 to our Current Report on Form 8-K filed on September 14, 2007 and incorporated herein by reference)
- 10.110 First Amendment to Purchase and Sale Agreement by and between St. Rita's Medical Center and Triple Net Properties, LLC, dated September 19, 2007 (included as Exhibit 10.2 to our Current Report on Form 8-K filed December 13, 2007 and incorporated herein by reference)
- 10.111 Loan Agreement by and between NNN Healthcare/Office REIT Market Exchange, LLC and Wachovia Financial Services, Inc., dated September 27, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed October 3, 2007 and incorporated herein by reference)
- 10.112 Promissory Note by NNN Healthcare/Office REIT Market Exchange, LLC in favor of Wachovia Financial Services, Inc., dated September 27, 2007 (included as Exhibit 10.2 to our Current Report on Form 8-K filed October 3, 2007 and incorporated herein by reference)
- 10.113 Repayment Guaranty by NNN Healthcare/Office REIT, Inc. in favor of Wachovia Financial Services, Inc., dated September 27, 2007 (included as Exhibit 10.3 to our Current Report on Form 8-K filed October 3, 2007 and incorporated herein by reference)
- 10.114 Open-End Mortgage, Assignment, Security Agreement and Fixture Filing by NNN Healthcare/Office REIT Market Exchange, LLC in favor of Wachovia Financial Services, Inc., dated September 27, 2007 (included as Exhibit 10.4 to our Current Report on Form 8-K filed October 3, 2007 and incorporated herein by reference)
- 10.115 Environmental Indemnity Agreement by NNN Healthcare/Office REIT Market Exchange, LLC and NNN Healthcare/Office REIT, Inc. for the benefit of Wachovia Financial Services, Inc., dated September 27, 2007 (included as Exhibit 10.5 to our Current Report on Form 8-K filed October 3, 2007 and incorporated herein by reference)
- 10.116 ISDA Interest Rate Swap Agreement by and between NNN Healthcare/Office REIT Market Exchange, LLC and Wachovia Bank, National Association, dated as of September 27, 2007 (included as Exhibit 10.1

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to our Current Report on Form 8-K filed October 18, 2007 and incorporated herein by reference)

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- 10.117 Assignment and Assumption of Purchase Agreement by and between Triple Net Properties, LLC and NNN Healthcare/Office E Florida LTC, LLC, dated September 28, 2007 (included as Exhibit 10.2 to our Current Report on Form 8-K filed October 4, 2007 and incorporated herein by reference)
- 10.118 Loan Agreement by and between NNN Healthcare/Office REIT E Florida LTC, LLC and KeyBank National Association, dated September 28, 2007 (included as Exhibit 10.3 to our Current Report on Form 8-K filed October 4, 2007 and incorporated herein by reference)
- 10.119 Promissory Note by NNN Healthcare/Office REIT E Florida LTC, LLC in favor of KeyBank National Association, dated September 28, 2007 (included as Exhibit 10.4 to our Current Report on Form 8-K filed October 4, 2007 and incorporated herein by reference)
- 10.120 Unconditional Payment Guaranty by NNN Healthcare/Office REIT, Inc. for the benefit of KeyBank National Association, dated September 28, 2007 (included as Exhibit 10.5 to our Current Report on Form 8-K filed October 4, 2007 and incorporated herein by reference)
- 10.121 Mortgage, Assignment of Rents, Security Agreement and Fixture Filing (Jacksonville) by NNN Healthcare/Office REIT E Florida LTC, LLC in favor of KeyBank National Association, dated September 28, 2007 (included as Exhibit 10.6 to our Current Report on Form 8-K filed October 4, 2007 and incorporated herein by reference)
- 10.122 Mortgage, Assignment of Rents, Security Agreement and Fixture Filing (Winter Park) by NNN Healthcare/Office REIT E Florida LTC, LLC in favor of KeyBank National Association, dated September 28, 2007 (included as Exhibit 10.7 to our Current Report on Form 8-K filed October 4, 2007 and incorporated herein by reference)
- 10.123 Mortgage, Assignment of Rents, Security Agreement and Fixture Filing (Sunrise) by NNN Healthcare/Office REIT E Florida LTC, LLC in favor of KeyBank National Association, dated September 28, 2007 (included as Exhibit 10.8 to our Current Report on Form 8-K filed October 4, 2007 and incorporated herein by reference)
- 10.124 Environmental and Hazardous Substances Indemnity Agreement by NNN Healthcare/Office REIT E Florida LTC, LLC for the benefit of KeyBank National Association, dated September 28, 2007 (included as Exhibit 10.9 to our Current Report on Form 8-K filed October 4, 2007 and incorporated herein by reference)
- 10.125 Second Amendment to Purchase and Sale Agreement by and between St. Rita's Medical Center and Triple Net Properties, LLC, dated September 28, 2007 (included as Exhibit 10.3 to our Current Report on Form 8-K filed December 13, 2007 and incorporated herein by reference)
- 10.126 ISDA Interest Rate Swap Agreement by and between NNN Healthcare/Office REIT E Florida LTC, LLC and KeyBank National Association, dated as of October 2, 2007, and as amended October 25, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed October 25, 2007 and incorporated herein by reference)
- 10.127 Agreement for Purchase and Sale of Real Property and Escrow Instructions by and between Northmeadow Parkway, LLC and Triple Net Properties, LLC, dated October 9, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed November 11, 2007 and incorporated herein by reference)
- 10.128 Third Amendment to Purchase and Sale Agreement by and between St. Rita's Medical Center and Triple Net Properties, LLC, dated October 10, 2007 (included as Exhibit 10.4 to our Current Report on Form 8-K filed December 13, 2007 and incorporated herein by reference)
- 10.129 Fourth Amendment to Purchase and Sale Agreement by and between St. Rita's Medical Center and Triple Net Properties, LLC, dated October 15, 2007 (included as Exhibit 10.5 to our Current Report on Form 8-K filed December 13, 2007 and incorporated herein by reference)
- 10.130 First Amendment to Agreement for Purchase and Sale of Real Property and Escrow Instructions by and between Northmeadow Parkway, LLC and Triple Net Properties, LLC, dated October 19, 2007 (included as Exhibit 10.2 to our Current Report on Form 8-K filed November 11, 2007 and incorporated herein by reference)

- 10.131 Fifth Amendment to Purchase and Sale Agreement by and between St. Rita's Medical Center and Triple Net Properties, LLC, dated November 2, 2007 (included as Exhibit 10.6 to our Current Report on Form 8-K filed December 13, 2007 and incorporated herein by reference)

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- 10.132 Agreement for Purchase and Sale of Real Property and Escrow Instructions by and between Frazee Enterprises, Inc. and Triple Net Properties, LLC, dated November 12, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed December 27, 2007 and incorporated herein by reference)
- 10.133 Assignment and Assumption of Agreement for Purchase and Sale of Real Property and Escrow Instructions by and between Triple Net Properties, LLC and NNN Healthcare/Office Northmeadow, LLC, dated November 15, 2007 (included as Exhibit 10.3 to our Current Report on Form 8-K filed November 11, 2007 and incorporated herein by reference)
- 10.134 First Amendment to Agreement for Purchase and Sale of Real Property and Escrow Instructions by and between Frazee Enterprises, Inc., and Triple Net Properties, LLC, dated November 16, 2007 (included as Exhibit 10.2 to our Current Report on Form 8-K filed December 27, 2007 and incorporated herein by reference)
- 10.135 Second Amendment to Agreement for Purchase and Sales of Real Property and Escrow Instructions by and between Frazee Enterprises, Inc. and Triple Net properties, LLC, dated November 27, 2007 (included as Exhibit 10.3 to our Current Report on Form 8-K filed December 27, 2007 and incorporated herein by reference)
- 10.136 Purchase and Sale Agreement by and between BRCP Highlands Ranch, LLC and Triple Net Properties, LLC, dated November 29, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed December 27, 2007 and incorporated herein by reference)
- 10.137 Loan Agreement by and between NNN Healthcare/Office REIT Kokomo Medical Office Park, LLC and Wachovia Financial Services, Inc., dated December 5, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed December 11, 2007 and incorporated herein by reference)
- 10.138 Promissory Note by NNN Healthcare/Office REIT Kokomo Medical Office Park, LLC in favor of Wachovia Financial Services, Inc., dated December 5, 2007 (included as Exhibit 10.2 to our Current Report on Form 8-K filed December 11, 2007 and incorporated herein by reference)
- 10.139 Mortgage, Assignment, Security Agreement and Fixture Filing by NNN Healthcare/Office REIT Kokomo Medical Office Park, LLC in favor of Wachovia Financial Services, Inc., dated December 5, 2007 (included as Exhibit 10.3 to our Current Report on Form 8-K filed December , 2007 and incorporated herein by reference)
- 10.140 Repayment Guaranty by NNN Healthcare/Office REIT, Inc. in favor of Wachovia Financial Services, Inc., dated December 5, 2007 (included as Exhibit 10.4 to our Current Report on Form 8-K filed December 11, 2007 and incorporated herein by reference)
- 10.141 Environmental Indemnity Agreement by NNN Healthcare/Office REIT Kokomo Medical Office Park, LLC and NNN Healthcare/Office REIT, Inc. for the benefit of Wachovia Financial Services, Inc., dated December 5, 2007 (included as Exhibit 10.5 to our Current Report on Form 8-K filed December 11, 2007 and incorporated herein by reference)
- 10.142 ISDA Interest Rate Swap Agreement by and between NNN Healthcare/Office REIT Kokomo Medical Office Park, LLC and Wachovia Bank, National Association, entered into December 5, 2007, as amended (included as Exhibit 10.6 to our Current Report on Form 8-K filed December 11, 2007 and incorporated herein by reference)
- 10.143 Sixth Amendment to Purchase and Sale Agreement by and between St. Rita's Medical Center and Triple Net Properties, LLC, dated December 6, 2007 (included as Exhibit 10.7 to our Current Report on Form 8-K filed December 13, 2007 and incorporated herein by reference)
- 10.144 Assignment and Assumption of Purchase Agreement by and between Triple Net Properties, LLC and NNN Healthcare/Office Lima, LLC, dated December 7, 2007 (included as Exhibit 10.8 to our Current Report on Form 8-K filed December 13, 2007 and incorporated herein by reference)
- 10.145 Modification of Loan Agreement by and among Grubb & Ellis Healthcare REIT Holdings, L.P., Grubb & Ellis Healthcare REIT, Inc., NNN Healthcare/Office REIT 2750 Monroe, LLC, NNN Healthcare/Office REIT Triumph, LLC and LaSalle Bank National Association, dated December 12, 2007 (included as

Exhibit 10.1 to our Current Report on Form 8-K filed December 18, 2007 and incorporated herein by reference)

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- 10.146 Amended and Restated Promissory Note by Grubb & Ellis Healthcare REIT Holdings, L.P. in favor of LaSalle Bank National Association, dated December 12, 2007 (included as Exhibit 10.2 to our Current Report on Form 8-K filed December 18, 2007 and incorporated herein by reference)
- 10.147 Amended and Restated Promissory Note by Grubb & Ellis Healthcare REIT Holdings, L.P. in favor of KeyBank National Association, dated December 12, 2007 (included as Exhibit 10.3 to our Current Report on Form 8-K filed December 18, 2007 and incorporated herein by reference)
- 10.148 Management Agreement by and between G&E Healthcare REIT/Duke Chesterfield Rehab, LLC and Triple Net Properties Realty, Inc., dated December 18, 2007 (included as Exhibit 10.3 to our Current Report on Form 8-K filed January 3, 2008 and incorporated herein by reference)
- 10.149 Assignment and Assumption of Purchase and Sale Agreement by and between Triple Net Properties, LLC and G&E Healthcare REIT County Line Road, LLC, dated December 19, 2007 (included as Exhibit 10.2 to our Current Report on Form 8-K filed December 27, 2007 and incorporated herein by reference)
- 10.150 Loan Agreement by and between G&E Healthcare REIT County Line Road, LLC and Wachovia Bank, National Association, dated December 19, 2007 (included as Exhibit 10.3 to our Current Report on Form 8-K filed December 27, 2007 and incorporated herein by reference)
- 10.151 Promissory Note by G&E Healthcare REIT County Line Road, LLC in favor of Wachovia Bank, National Association, dated December 19, 2007 (included as Exhibit 10.4 to our Current Report on Form 8-K filed December 27, 2007 and incorporated herein by reference)
- 10.152 Deed of Trust, Assignment, Security Agreement and Fixture Filing by G&E Healthcare REIT County Line Road, LLC for the benefit of Wachovia Bank, National Association, dated December 19, 2007 (included as Exhibit 10.5 to our Current Report on Form 8-K filed December 27, 2007 and incorporated herein by reference)
- 10.153 Repayment Guaranty by Grubb & Ellis Healthcare REIT, Inc. in favor of Wachovia Bank, National Association, dated December 19, 2007 (included as Exhibit 10.6 to our Current Report on Form 8-K filed December 27, 2007 and incorporated herein by reference)
- 10.154 Environmental Indemnity Agreement by G&E Healthcare REIT County Line Road, LLC and Grubb & Ellis Healthcare REIT, Inc. for the benefit of Wachovia Bank, National Association, dated December 19, 2007 (included as Exhibit 10.7 to our Current Report on Form 8-K filed December 27, 2007 and incorporated herein by reference)
- 10.155 Open-End Revolving Mortgage, Security Agreement, Assignment of Rents and Leases and Fixture Filing by NNN Healthcare/Office REIT Lima, LLC to and for the benefit of LaSalle Bank National Association, dated December 19, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed January 2, 2008 and incorporated herein by reference)
- 10.156 Open-End Fee and Leasehold Revolving Mortgage, Security Agreement, Assignment of Rents and Leases and Fixture Filing by NNN Healthcare/Office REIT Lima, LLC to and for the benefit of LaSalle Bank National Association, dated December 19, 2007 (included as Exhibit 10.2 to our Current Report on Form 8-K filed January 2, 2008 and incorporated herein by reference)
- 10.157 Joinder Agreement by NNN Healthcare/Office REIT Lima, LLC in favor of LaSalle Bank National Association, dated as of December 19, 2007 (included as Exhibit 10.3 to our Current Report on Form 8-K filed January 2, 2008 and incorporated herein by reference)
- 10.158 Environmental Indemnity Agreement by Grubb and Ellis Healthcare REIT Holdings, L.P., NNN Healthcare/Office REIT Lima, LLC and Grubb & Ellis Healthcare REIT, Inc. to and for the benefit of LaSalle Bank National Association, dated December 19, 2007 (included as Exhibit 10.4 to our Current Report on Form 8-K filed January 2, 2008 and incorporated herein by reference)
- 10.159 Agreement of Sale by and among Triple Net Properties, LLC and TST Overland Park, L.P., TST El Paso Properties, Ltd., TST Jacksonville II, LLC, TST Tampa Bay, Ltd., TST Largo ASC, Ltd., TST Brandon, Ltd. and TST Lakeland, Ltd., dated December 19, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed February 7, 2008 and incorporated herein by reference)

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- 10.160 Assignment and Assumption of Purchase Agreement by and between Triple Net Properties, LLC and G&E Healthcare REIT Lincoln Park Boulevard, LLC, dated December 20, 2007 (included as Exhibit 10.4 to our Current Report on Form 8-K filed December 27, 2007 and incorporated herein by reference)
- 10.161 Loan Agreement by and between G&E Healthcare REIT Lincoln Park Boulevard, LLC and Wachovia Bank, National Association, dated December 20, 2007 (included as Exhibit 10.5 to our Current Report on Form 8-K filed December 27, 2007 and incorporated herein by reference)
- 10.162 Promissory Note by G&E Healthcare REIT Lincoln Park Boulevard, LLC in favor of Wachovia Financial Services, Inc., dated December 20, 2007 (included as Exhibit 10.6 to our Current Report on Form 8-K filed December 27, 2007 and incorporated herein by reference)
- 10.163 Open-End Mortgage, Assignment, Security Agreement and Fixture Filing by G&E Healthcare REIT Lincoln Park Boulevard, LLC in favor of Wachovia Financial Services, Inc., dated December 20, 2007 (included as Exhibit 10.7 to our Current Report on Form 8-K filed December 27, 2007 and incorporated herein by reference)
- 10.164 Repayment Guaranty by Grubb & Ellis Healthcare REIT, Inc. in favor of Wachovia Financial Services, Inc., dated December 20, 2007 (included as Exhibit 10.8 to our Current Report on Form 8-K filed December 27, 2007 and incorporated herein by reference)
- 10.165 Environmental Indemnity Agreement by G&E Healthcare REIT Lincoln Park Boulevard, LLC and Grubb & Ellis Healthcare REIT, Inc. for the benefit of Wachovia Financial Services, Inc., dated December 20, 2007 (included as Exhibit 10.9 to our Current Report on Form 8-K filed December 27, 2007 and incorporated herein by reference)
- 10.166 Limited Liability Company Agreement of G&E Healthcare REIT/Duke Chesterfield Rehab, LLC by and between BD St. Louis Development, LLC and Grubb & Ellis Healthcare REIT Holdings, L.P., executed on December 20, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed January 3, 2008 and incorporated herein by reference)
- 10.167 Contribution Agreement by and among BD St. Louis Development, LLC, Grubb & Ellis Healthcare REIT Holdings, L.P. and G&E Healthcare REIT/Duke Chesterfield Rehab, LLC, executed on December 20, 2007 (included as Exhibit 10.2 to our Current Report on Form 8-K filed January 3, 2008 and incorporated herein by reference)
- 10.168 Promissory Note by G&E Healthcare REIT Chesterfield Rehab Hospital, LLC in favor of National City Bank, dated December 20, 2007 (included as Exhibit 10.4 to our Current Report on Form 8-K filed January 3, 2008 and incorporated herein by reference)
- 10.169 Deed of Trust, Assignment, Security Agreement, Assignment of Leases and Rents, and Fixture Filing by G&E Healthcare REIT Chesterfield Rehab Hospital, LLC to PSPM Trustee, Inc. for the benefit of National City Bank, dated December 20, 2007 (included as Exhibit 10.5 to our Current Report on Form 8-K filed January 3, 2008 and incorporated herein by reference)
- 10.170 Grubb & Ellis Healthcare REIT, Inc. Limited Guaranty of Payment by Grubb & Ellis Healthcare REIT, Inc. for the benefit of National City Bank, dated December 20, 2007 (included as Exhibit 10.6 to our Current Report on Form 8-K filed January 3, 2008 and incorporated herein by reference)
- 10.171 Duke Realty Limited Partnership Limited Guaranty of Payment by Duke Realty Limited Partnership for the benefit of National City Bank, dated December 20, 2007 (included as Exhibit 10.7 to our Current Report on Form 8-K filed January 3, 2008 and incorporated herein by reference)
- 10.172 Environmental Indemnity Agreement by G&E Healthcare REIT Chesterfield Rehab Hospital, LLC, Grubb & Ellis Healthcare REIT, Inc. and Duke Realty Limited Partnership for the benefit of National City Bank, dated December 20, 2007 (included as Exhibit 10.8 to our Current Report on Form 8-K filed January 3, 2008 and incorporated herein by reference)
- 10.173 Interest Rate Swap Confirmation by and between G&E Healthcare REIT Chesterfield Rehab Hospital, LLC and National City Bank, dated December 20, 2007 (included as Exhibit 10.9 to our Current Report on Form 8-K filed January 3, 2008 and incorporated herein by reference)

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- 10.174 Leasehold and Fee Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing, and Environmental Indemnity Agreement by NNN Healthcare/Office REIT Tucson Medical Office, LLC to and for the benefit of LaSalle Bank National Association, dated December 20, 2007 (included as Exhibit 10.1 to our Current Report on Form 8-K filed January 3, 2008 and incorporated herein by reference)
- 10.175 Joinder Agreement by NNN Healthcare/Office REIT Tucson Medical Office, LLC in favor of LaSalle Bank National Association, dated December 20, 2007 (included as Exhibit 10.2 to our Current Report on Form 8-K filed January 3, 2008 and incorporated herein by reference)
- 10.176 Environmental Indemnity Agreement by Grubb and Ellis Healthcare REIT Holdings, L.P., NNN Healthcare/Office REIT Tucson Medical Office, LLC and Grubb & Ellis Healthcare REIT, Inc. to and for the benefit of LaSalle Bank National Association, dated December 20, 2007 (included as Exhibit 10.3 to our Current Report on Form 8-K filed January 3, 2008 and incorporated herein by reference)
- 10.177 ISDA Interest Rate Swap Agreement by and between G&E Healthcare REIT County Line Road, LLC and Wachovia Bank, National Association, dated December 21, 2007, as amended on December 24, 2007 (included as Exhibit 10.8 to our Current Report on Form 8-K filed December 27, 2007 and incorporated herein by reference)
- 10.178 ISDA Interest Rate Swap Agreement by and between G&E Healthcare REIT Lincoln Park Boulevard, LLC and Wachovia Financial Services, Inc., dated December 31, 2007, as amended on December 21, 2007 and December 24, 2007 (included as Exhibit 10.10 to our Current Report on Form 8-K filed December 28, 2007 and incorporated herein by reference)
- 21.1* Subsidiaries of Grubb & Ellis Healthcare REIT, Inc.
- 31.1* Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2* Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1* Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2* Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith.

Compensatory plan or arrangement.